THE SPAR GROUP LIMITED
ANNUAL REPORT 2006

SPAR

SPAR


WOOF
DOG CHUNKS

CONTENTS

FINANCIAL HIGHLIGHTS

• Comparable turnover	▲ 19.4%
• Operating profit	▲ 20.7%
• Basic earnings per share	▲ 18.6%
• Strong cash generation	
• Annual dividend	▲ 30%

CHAIRMAN'S REPORT

OVERVIEW

Against the backdrop of an extremely active retail environment, SPAR produced a solid set of trading results. The group achieved earnings of R408 million, up 19% on 2005. Basic earnings per share of 240.5 cents increased by 18.6%. A reduced dividend cover resulted in an increase of 30% in the annual dividend declaration and cash generation remained extremely strong.

With a substantial increase in volumes being handled by the group's distribution centres, the provision of additional distribution capacity has become a priority. To this end construction has commenced on a R300 million distribution facility in Cape Town, additional property has been acquired adjoining the KwaZulu-Natal distribution centre and expansion options in the inland region are being analysed. The group remains committed to investing in its distribution centres in order to provide retailer members with an exceptional distribution service.

At retail, SPAR, TOPS at SPAR and Build it all increased store numbers and gained market share. The group anticipates continued good growth at retail in 2007, which in turn will drive group profitability.

CORPORATE GOVERNANCE AND SUSTAINABILITY

The group continues to maintain high standards of corporate governance and is committed to operating in a sustainable manner. Detailed commentaries appearing elsewhere in this annual report set out the group's position in relation to the aforementioned.

DIRECTORATE

On 1 October 2006, after 17 years at the helm, Peter Hughes retired as chief executive and an executive director of the group. During his tenure as chief executive, Peter played a major role in leading the group to its present position of national prominence. Peter's vision, clarity of thought, drive and determination and most particularly his people skills were defining features of his tenure. On behalf of the board, the executive committee, distribution centre management, staff, retailer members and colleagues, we wish Peter well in his retirement and thank him most sincerely for the contribution he has made to SPAR. Peter remains a non-executive director of the company.

Wayne Hook, who has been with the group for 22 years and who has held a number of executive positions during that time, was appointed chief executive on Peter's retirement. On behalf of the board we wish Wayne every success in his new position.

We welcomed Phumla Mnganga who joined the board on 1 January 2006.

I express my sincere appreciation to the board for the active and constructive role they have played during the year.

PROSPECTS

With reports of the country's current account deficit at record levels, rising inflation indicators and following recent interest rate rises and with the potential of further interest rate increases, it is likely that there will be a slowing in the growth of the economy and consumer spending. Notwithstanding the aforementioned, with the group being financially sound and with competent and motivated management in place, it is anticipated that the group will enjoy another year of positive growth in market share and profitability.

Mike Hankinson
Chairman

Wayne Hook (left) and Peter Hughes (right)

CHIEF EXECUTIVE'S REPORT

FINANCIAL OVERVIEW

SPAR had another good trading year with turnover topping the R17 billion mark and showing growth of 25%. Comparable turnover growth was 19.4% after adjusting for direct delivery sales, which sales were handled on an agency basis in 2005. With inflation running at 3 – 4% this translated into considerable real growth for the year.

In spite of strong competition, gross margins by category were maintained. However, as anticipated, a decline in the trading gross margin was recorded due to the change in sales mix and the aforementioned move from agency to direct delivery sales. Operating profit increased by 20.7% to R602.8 million.

Well controlled working capital coupled with the group's exceptionally strong cash flow earned the group net interest of R15.6 million (2005: R0.1 million). Profit after interest reflected a 23.8% increase. The group took the decision to retain in-house a number of loans made to retailer members, as opposed to discounting the loans with bankers as occurred in 2005. These loans provided an increased source of interest revenue.

Taxation increased to 34.1% (2005: 31.5%) of pretax profits as a result of the substantially higher STC charge arising from the increased dividend payment.

Net profit after taxation of R407.6 million represented a growth of 19.0% on 2005. Basic earning per share increased 18.6% to 240.5 cents per share. Return on average equity was a creditable 49.6%.

The reduction in the dividend cover and the declaration of a final dividend of 75 cents per share, gave rise to a 30% increase in the dividend payable for the full year.

SHARE PURCHASE

During the year the company approved the repurchase of shares, which resulted in the share incentive trust purchasing 2.7 million SPAR shares, as a hedge against share options issued. The shares will be held for purposes of satisfying option holders as and when such option holders exercise their option rights. The purchase will reduce the dilutionary effect that will result in the event of the company having to issue new shares to satisfy option holders' rights.

KWIKSPAR, SPAR AND SUPERSPAR

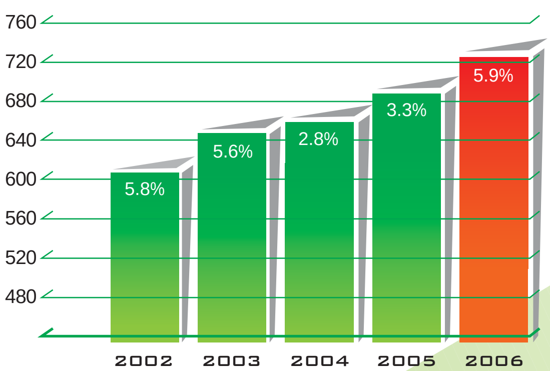
With the South African economy growing at approximately 4.5% and with business confidence high, 2006 proved to be another exceptionally busy trading year for SPAR. Against measured market growth of 14.7%, SPAR grew at 16.7% and increased its market share to 26.4%. A particularly strong second half sales growth was experienced due to sustained consumer spending and aggressive marketing and promotional activity.

During the year, 39 SPAR format stores (9 SUPERSPAR, 22 SPAR and 8 KWIKSPAR stores) were opened, which after store losses, saw total store numbers at 799. The ongoing program of upgrading existing stores resulted in 122 stores undertaking major store revamps. Retail trading space increased to 727 547 m^2, a growth of 5.9%. Sales at retail topped R24 billion.

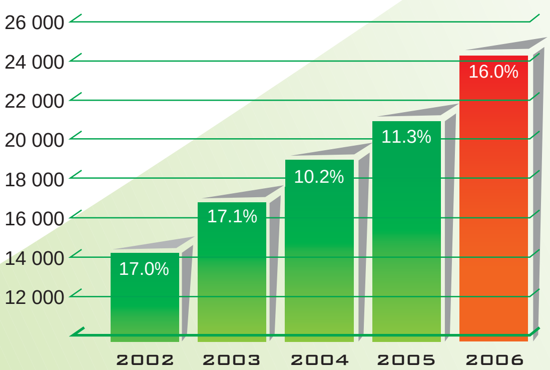
SPAR RETAIL STORE NUMBERS

	2002	2003	2004	2005	2006
SUPERSPAR	75	95	113	123	145
SPAR	475	473	464	475	478
KWIKSPAR	189	186	185	185	176
TOTAL	739	754	762	783	799

SPAR RETAIL SELLING AREA
m^2 ('000) + growth %



SPAR RETAIL SALES
(R millions) + growth %



Retail stores continued to focus on improving customer service and meeting the consumers' ever changing demands.

The group's marketing efforts were focused on four specific areas, driving the brand, improving price perception, being best in fresh and promoting a healthy living. Marketing spend increased considerably, with television spend specifically increasing by 50%. Instore point of sale, television, radio, leaflets and press advertising continued to be the dominant advertising media. Sponsorship of women in sport, specifically hockey, netball and SPAR's 10 km challenges together with community involvement contributed to building the SPAR brand.

SPAR celebrated yet another year of excellence with regard to its private label products. These brands achieved a growth in excess of 21%. House brand turnover now exceeds R1.7 billion. SAVEMOR branded commodity products also showed significant volume growth and are important contributors to the success of SPAR's private label programme.

Fresh produce and bakery products under the banner of FRESH LINE also showed further improvement in quality and are now a major contributor to SPAR's fresh offering.

Exciting and innovative marketing initiatives are planned for the year ahead underpinned by the pay-off line "Good for You" which is focused on building the brand and increasing customer loyalty.

During 2007 the group will continue to drive the growth and profitability of retailer stores, by providing them with the support services that allow them to compete successfully against the other major food chains. The group will also encourage SPAR retailers to remodel and expand their stores, drive up shopping convenience factors and improve their ranges, customer service and quality of offering. Training and development of retailer staff will remain a key focus area in order to sustain growth into the future. The SPAR store development programme should deliver 35 additional stores in 2007, which will equate to a forecast net increase of 26 stores after taking into account stores lost. A further 125 stores will be remodelled or upgraded.

TOPS AT SPAR

SPAR continued its drive to encourage SPAR retailers to expand their offering to include liquor. This resulted in the opening of a further 44 TOPS at SPAR stores, making it the largest branded liquor group in the country in terms of store numbers. The group now services 216 outlets throughout South Africa, Namibia and Botswana.

Legislative backlogs in various provinces slowed the granting of liquor licences and delayed the opening of a number of stores.

Liquor market growth for the year was estimated to be approximately 12%, with inflation in the category running at 9.2%. TOPS stores achieved good growth during this period.

TOPS media spend during 2006 increased 54% to R15 million. Television advertising was introduced

for the first time and brand awareness continues to improve. Leaflet advertising remains the core of the division's media spend. The TOPS exclusive whisky and wine brands portfolios were extended during the year and achieved notable success. Exclusive brands have now captured a significant share of the categories in which they trade.

It is anticipated that a further 42 liquor outlets will be opened during 2007.

BUILD IT

Build it had another extremely successful year, both in terms of store growth and in establishing itself as one of the leading brands in the hardware and building materials industry. The building materials market remained particularly buoyant and Build it benefited from this trading environment.

Build it, as a division of SPAR, owns the "Build it" trade mark and provides the leadership and the drive for this voluntary trading group of stores.

The Build it division is responsible for, amongst other issues, controlling and driving the brand, national advertising, supplier negotiations, promotions, house brands, and information technology issues at retail.

Membership of the Build it voluntary trading group, results in an approved retailer store owner being granted a credit line via a trading account provided by Build it. In return for the Build it division handling the retailer's trading account, the Build it division earns a margin on orders placed by the retailer against selected suppliers. Build it retailers do not receive deliveries of goods from SPAR's distribution facilities nor do SPAR facilities stock building materials or hardware. SPAR's accounts reflect, as turnover, the value of orders placed by Build it retailer members, against the aforementioned selected suppliers. The Build it division's turnover grew some 61% to R1.4 billion for the year under review.

TOPS AT SPAR STORE NUMBERS

	2005	2006
SOUTH RAND	36	48
NORTH RAND	39	51
KWAZULU-NATAL	49	54
WESTERN CAPE	27	37
EASTERN CAPE	18	21
LOWVELD	3	5
TOTAL	172	216

BUILD IT STORE NUMBERS

	2005	2006
SOUTH RAND	24	41
NORTH RAND	34	39
KWAZULU-NATAL	58	62
WESTERN CAPE	16	27
EASTERN CAPE	30	30
LOWVELD	16	22
TOTAL	178	221

Build it store numbers rose to 221, a net increase of 43 stores. An exciting part of this growth was the increasing size of individual stores joining the group, which had a positive effect on market share. Build it retailer turnover nationwide touched R2.5 billion, making Build it the fastest growing brand in the industry.

Critical to the success of Build it are the four building blocks upon which the brand is built. These are: store image and standards, training and development, marketing and retail operations and customer service. The Build it division actively engages in driving all of the aforementioned.

Exciting marketing initiatives embarked on during the year involved the roll-out of the "Simply Build it" campaign, the development of national radio advertisements and TV commercials, and numerous strong promotional campaigns supported with extremely competitive product pricing. The sponsorship of a national Under 13 Youth Development Soccer program and the sponsoring of boxer, Hawk Makepula, resulted in considerable brand exposure in the target market segment. Build it also experienced a very successful year in growing the Build it house brand range of quality products. Particularly successful was the re-launch of the range of house brand paints.

Build it is targeting to open 40 stores in 2007. Barring unforeseen changes in the business environment, Build it is looking to another year of solid growth. The division will focus on its training and development programs, building the brand and the introduction of improved systems at retail.

DISTRIBUTION FACILITIES

The strong sales performance experienced during the past year resulted in an 13.5% increase in the number of cases handled by the group's distribution centres. In excess of 120 million cases of frozen, chilled and dry product were delivered through the group's facilities to SPAR stores throughout South Africa, Namibia and Botswana. Notwithstanding this substantial increase in activity, all distribution centres operated efficiently with costs well controlled.

Improved warehouse management systems and adherence to best operating practices, resulted in improvements in productivity. "On time" deliveries by suppliers to SPAR distribution centres and likewise by SPAR to retailer outlets remained areas of focus. Continuous improvement programmes centred around staff development within distribution centres helped drive efficiencies.

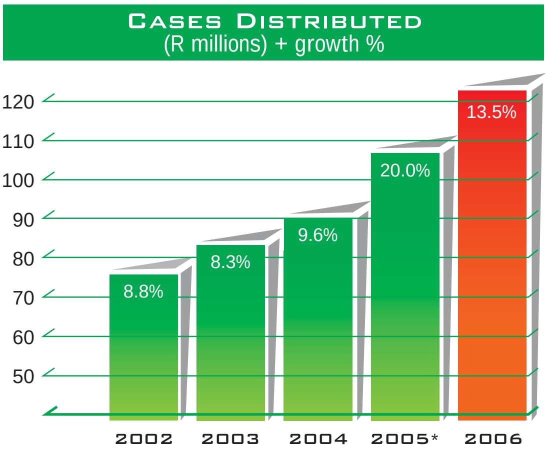
The group's major logistics initiatives, the introduction of scanning of inbound stock and voice activated stock picking, were successfully introduced at the KwaZulu-Natal distribution centre. These new processes, both supported by radio frequency technologies, will result in better stock control and stock availability as well as improved receiving, picking and despatch accuracies, which will reduce stock shortage and miss-pick claims from retailer outlets. The inbound stock scanning leg was also introduced at the South Rand and North Rand distribution centres with the outbound process to be rolled out in 2007. Inbound stock scanning and voice activated stock picking will be introduced at the Eastern Cape and Lowveld facilities later in 2007 with Western Cape following in 2008 when the new facility is completed.

The group's transport fleet has been significantly upgraded over the past two years. The group now owns 190 truck tractors and more than 250 semi-trailers. This upgrade program will continue in 2007. Advanced driver training of the group's heavy duty drivers will continue and a number of warehouse learnership programs have been put in place. The development of distribution staff to meet the ongoing growth and efficiency requirements of the group remains a key focus area.

The significant fuel price increases that were experienced made it essential to optimise fleet routing and transportation controls. Increased fuel prices resulted in an additional fuel cost of R6.8 million being incurred during 2006. Routing best practices are shared across distribution centres and all vehicles are now monitored by on-board computers. New lightweight trailers and more fuel efficient horses are being introduced into distribution fleets, and the group continues to work closely with retailers to improve vehicle utilisation, turnaround times and to reduce damages.

With the present Western Cape distribution facility running at capacity, the company acquired a 13-hectare site in Philippi for the relocation of its operations from Montague Gardens. When completed, the new facility will comprise a 26 400 m^2 dry goods facility, a 7 150 m^2 perishable and frozen product chamber and regional offices of some 4 500 m^2. Earthworks are already well advanced and trading from the new facility is expected to commence in April 2008. The estimated total cost of the facility will be R300 million. It is anticipated that the Montague Gardens facility will be sold at an estimated recovery of R60 million once the move to the new facility is complete.The Western Cape operation currently leases third party warehouse capacity to supplement its over extended

Distribution Centre	M²	Stores Serviced
SOUTH RAND	32 000	230
NORTH RAND	33 600	180
KWAZULU-NATAL	39 000	148
WESTERN CAPE	21 000	122
EASTERN CAPE	24 000	86
LOWVELD	14 000	33
TOTAL	163 600	799



existing owned facility. The aforementioned new facility will enable SPAR Western Cape to grow its market share in the region, whilst at the same time enabling the consolidation of its distribution operations onto a single site. The consolidation of operations will result in operational efficiencies being achieved, which will to some extent offset the higher level of initial costs that will result from the move to the new distribution centre.

During the year the construction of a 5 700 m² extension to the Eastern Cape facility was completed. This extension, which provides both increased dry and perishable storage capacity, will cater for the growth being experienced in that region.

The particularly strong sales growth experienced by the South Rand and North Rand distribution facilities also resulted in warehouse capacity problems being experienced. Extensions and improvements were made to the North Rand facility to cope with the increased volumes and to improve efficiencies. The South Rand facility still has some capacity for growth. A detailed review of the group's inland facilities has been undertaken and a number of expansion options are currently being considered. The expansion of the group's South Rand facility and or the provision of a further freestanding facility is being investigated.

The Lowveld facility underwent a major maintenance upgrade in addition to a racking and storage re-configuration in order to bring the facility in line with group best operating practices.

During the year the group purchased property adjoining the KwaZulu-Natal distribution centre thereby securing future limited expansion capacity. It is anticipated that construction of an extension to the KwaZulu-Natal perishable facility will be commenced early during the 2008 financial year.

Capital expenditure on facilities in 2006 amounted to R190 million.

The group's revised capital expenditure on building facilities for the 2007 financial year is estimated to be R260 million. The replacement and expansion of the fleet and purchase of warehouse equipment will require a further R40 million capital expenditure which together with information technology capital expenditure of

R30 million will result in forecast total capital expenditure for 2007 of R330 million.

INFORMATION TECHNOLOGY

Information technology provides the backbone of the group's operations. To this end the group's existing processors housed at the various distribution centres and central office will be replaced. The upgrade of equipment will enable facilities to cope with the increase in transaction volumes and to deliver improved efficiencies and transaction speeds.

Exciting new technologies that will be rolled out in 2007 and 2008 will include the aforementioned radio frequency and voice activated picking processes, a greatly improved system to deal with the processing of direct delivery transactions, an enhanced retail store back office system and a retail network.

SPAR System 3, the back office software currently utilised by SPAR retailers, will be phased out over the next 24 months and replaced with SIGMA, a state of the art Windows-based system. This software which is used extensively in Europe will provide a wealth of increased functionality for retailers. Likewise STORELINE, an advanced point-of-sale system, is also being rolled out to all retail stores as a replacement for the present Posware system. These new technologies will be financed by the group and rented to the retail members.

One of the most exciting projects that will be undertaken in 2007 will be the implementation of a retail network or Virtual Private Network (VPN). After many years of cumbersome and slow data communications, it is now financially viable to introduce a VPN. This will result in a permanent high speed, highly reliable and increased capacity link between the group's distribution centres and retail stores.

2007 capital expenditure for technologies is estimated to be R30 million.

TRANSFORMATION

The group confirms its commitment to Broad-based Black Economic Empowerment ("BBBEE"). SPAR subscribes to the strategy that looks to position BBBEE as a tool to broaden the country's base and to accelerate growth and job creation. SPAR will continue to aggressively drive the various components of transformation. This issue is dealt with in further detail in the Sustainability Report.

EXECUTIVE MANAGEMENT

On 1 October 2006 as previously announced, I retired as chief executive and Wayne Hook took over responsibility for the group. I am confident that Wayne, a chartered accountant who has been with the group for 22 years, will ably and successfully lead the group into the future. Wayne brings with him a wealth of experience and has served the group in areas of finance, logistics and information technology as well as having been the managing director of the KwaZulu-Natal distribution centre for the past nine years.

With Wayne's move to the position of chief executive, Rob Philipson assumed the managing directorship of the KwaZulu-Natal facility. Conrad Isaac was appointed managing director of the Eastern Cape distribution centre on the departure of Bernard Zaayman, who purchased a SPAR retail outlet.

Senior management remains enthusiastic and committed to driving and growing SPAR and played an important and essential role in the achievement of SPAR's 2006 results. There remains good depth of management and succession for all key positions.

LOOKING FORWARD

Notwithstanding a forecast slowdown in economic activity and an increase in inflation, the group is confident that it will again achieve good revenue and profit growth in 2007.

Cash generation will accommodate the significant capital expenditure requirements and the ongoing purchase of shares. Consideration will be given to reducing the dividend cover.

The anticipated growth in store numbers, retail trading space and retailer support services will translate into positive volume growth for the group in 2007.

APPRECIATION

I wish to express my sincere appreciation to the board and particularly the executive management committee for their support during my 17 year tenure as chief executive. To the distribution centres and central office executives and to all staff, I thank each and every one of you most sincerely for the role that you individually have played in

SPAR's success. Most importantly I thank you all for the support you have given to me personally and for your friendship and the fun times we have had together.

To SPAR's suppliers and service providers, thank you for your ongoing support. SPAR is proud to have you as partners.

Finally I must say a very big thank you to all SPAR and Build it retailers for their loyal support, co-operation and their friendship, not just over the past year but over the 17 years that SPAR has been my life.

My years in SPAR have been filled with great moments and it has certainly been the most rewarding and enjoyable time of my life. I go into retirement knowing that the greater SPAR family of retailers and the group are in good hands and will continue to thrive under SPAR's philosophy of "all will benefit from united co-operation". My best wishes go out to SPAR and all its people and stakeholders for ongoing success in the future.

Peter Hughes

Chief Executive for the year under review

Left to right: Rowan Hutchison, Harish Mehta, Rodney Coe, Michael Hankinson, Peter Hughes, Phumla Mnganga, Phinda Madi, David Gibbon and Kevin O'Brien (Company Secretary)

DIRECTORATE

NON-EXECUTIVE DIRECTORS

Michael John Hankinson (57)

B.Com, CA(SA)

(Independent non-executive chairman)

Appointed to the board: September 2004

Chief executive officer of Dunlop Tyres International (Pty) Limited.

A former group chief executive of Romatex Limited, Textile Federation president and board member of the S.A. Wool Board and International Wool Secretariat.

Rowan James Hutchison (59)

B.Com (Hons), MBA

(Independent non-executive director)

Appointed to the board: October 2004

Currently a non-executive director of RMB Asset Management (Pty) Limited and Momentum Group Limited. A member of the Momentum Group remuneration committee.

A former chief executive officer of RMB Asset Management (Pty) Limited.

David Braidwood Gibbon (64)

CA(SA)

(Independent non-executive director)

Appointed to the board: October 2004

An independent non-executive director and chairman of the audit committee of Africa Bank Investments Limited, and a director of Steinway Trustees (Pty) Limited.

A former partner of Deloitte & Touche.

Mziwakhe Phinda Madi (39)

B.Proc (Law)

(Independent non-executive director)

Appointed to the board: October 2004

Deputy chairman of Allcare Medical Aid Administrators and a visiting professor of Rhodes University Business School. A founding member of the Black Economic Empowerment Commission and a director of Illovo Sugar Limited.

A former group managing director of Thebe Risks and Benefits Group and chairperson of Madi Sussens and Herdbouys.

Wayne Hook

NON-EXECUTIVE DIRECTORS

Phumla Mnganga (38)

BA, B.ED, MBL

(Independent non-executive director)

Appointed to the board: January 2006

Managing director of Lehumo Women's Investment Company. A director of Gold Circle Racing and Gaming Company and the Council of the University of KwaZulu-Natal.

Previously worked in an executive capacity at Tongaat Hulett Group and Gold Circle Racing and Gaming Group.

Harish Kantilal Mehta (56)

B.Sc, MBA

(Independent non-executive director)

Appointed to the board: October 2004

Group Managing Director of Universal Print Group (Pty) Limited.

A director of Clearwater Capital (Pty) Limited.

Chairman of Madison Property Management Company Limited.

EXECUTIVE DIRECTORS

Peter Kilby Hughes (60)

C.I.S.

(Chief executive – retired 1 October 2006)

Appointed to the board: September 1989

Chief executive of SPAR for the past seventeen years.

A former regional and divisional director within the Barlow Group.

Wayne Allan Hook (50)

CA(SA)

(Chief executive)

Appointed to the board: 1 October 2006

Joined the group in 1984 and served in financial, information technology and logistics management, before being appointed managing director of Spar KwaZulu-Natal, a position he has held for the past nine years.

Rodney Walter Coe (57)

CA(SA)

(Financial director)

Appointed to the board: November 1990

Financial director since 1993, a former group development director. 22 years service with SPAR.

A former director of Holiday Inns Limited.

* Serviced ex North Rand

STORE FORMATS

In keeping with changing trends at retail, store formats are continuously reviewed to focus on specific market segments. Currently there are three formats covering food, and specialised formats covering liquor and building materials.

KWIKSPAR

With selling areas of up to 600 m^2, KWIKSPAR stores focus on convenience with an emphasis on speed, and freshness in terms of produce, bakery, fresh meat and prepared and take-out foods. KWIKSPARs carry a range of groceries at prices that offer good value.

SPAR

With selling areas of 700 m^2 and above, SPAR stores focus on neighbourhood and rural supermarket shopping. SPAR stores are very competitively priced with a strong focus on friendly and professional service, and offer a comprehensive range of groceries backed by fresh produce, in-store bakery, butchery, deli and home meal replacement departments.

SUPERSPAR

With selling areas greater than 1300 m^2, SUPERSPAR stores are aggressively priced against the chains and offer a full range of groceries and general merchandise, backed by extensive service departments such as produce, bakery, butchery, deli and meal solutions.

tops! at SPAR

A standalone liquor store, established to take SPAR members into a full range of liquor products. Membership is an extension of The SPAR Guild and is only available to existing KWIKSPAR, SPAR and SUPERSPAR members. TOPS stores must be located within close proximity of the member's store.

Build it

A standalone building materials outlet selling basic building and hardware products to home builders and renovators in the lower to middle sectors of the market. Membership is controlled through The Build it Guild, which is independent of The SPAR Guild. Membership is not confined to SPAR members.

HISTORY OF SPAR

The concept of voluntary trading, uniting the efforts of both independent wholesaler and retailer, was born in the USA in the late 1920s and early 1930s. It was the answer to the threat of the grocery chains that were fast taking the lion's share of the market.

As chain stores emerged in Europe, Adriaan van Well, a wholesaler in the Netherlands, introduced the same concept in 1932. He called his organisation DESPAR, being the initial letters of a slogan that he created to describe the philosophy. Later the name was abbreviated by dropping the letters DE, but the underlying meaning remains the philosophy of the organisation, which now covers 36 countries on five continents.

By the beginning of the 1960s, grocery chains were also emerging in South Africa. To counter this threat, a group of eight wholesalers got together and introduced SPAR, which was launched in 1963 to service 500 small retailers.

During the 42 years that followed, the wholesalers were involved in a number of mergers and take-overs. Today, The SPAR Group Limited owns all the aforementioned wholesalers and operates six modern distribution centres that service 799 SPAR stores across South Africa and the neighbouring countries.

The SPAR organisation is made up of two types of members: SPAR retailers, who are independent store owners, and SPAR distribution centres, which provide leadership and services to the SPAR retail members in their respective regions. Both member types belong to The SPAR Guild of Southern Africa, a non-profitmaking company set up to co-ordinate and develop SPAR in Southern Africa. The members pay subscriptions to the Guild, which uses these monies to advertise and promote SPAR.

To facilitate the operation, the country is divided into six geographic areas, each with its own regional guild of retail and DC members, with the centre of control being the local distribution centre. It's a formula that works effectively to unite the organisation in its ongoing drive to remain at the forefront of food retailing in Southern Africa.

1932 1940 1950 1960 1968

The SPAR logo through the years

DOOR

EENDRACHTIG

SAMENWERKEN

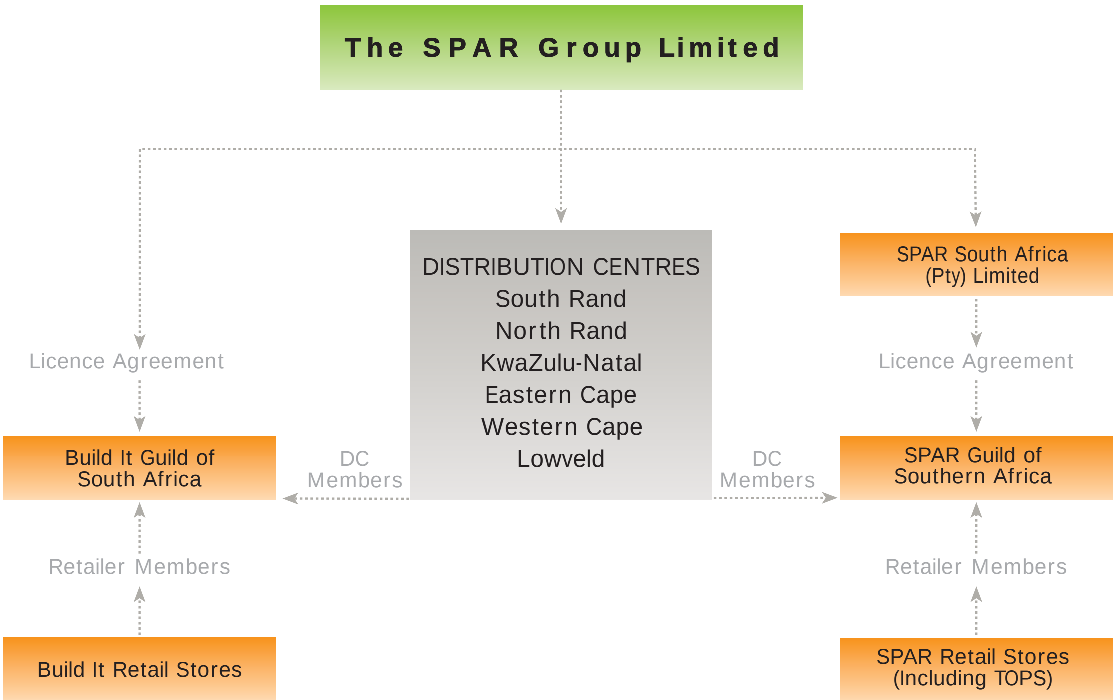
PROFITEREN

ALLEN

REGELMATIG

Translated into English:
"All will benefit from united co-operation"

GROUP STRUCTURE



THE BENEFITS OF JOINING THE SPAR/BUILD IT FAMILY

From the moment a retailer becomes an independent SPAR/Build it member, a world of support, services and benefits opens. Retailers list the following among the many advantages of their membership of the SPAR/Build it organisation:

- Bulk deliveries from distribution centres
- Reduced backdoor congestion
- Comprehensive computer systems
- Store development advice
- Retail incentives
- Know-how exchange
- Ongoing training
- Full colour leaflets
- National sponsorships
- Category management advice
- Access to bulk buying
- Volume discounts
- Improved cash flow
- Retail consultancy service
- Customer service reviews
- Media exposure in the press, TV and radio
- In-store point-of-sale material
- Regular promotions
- Own house brand under the SPAR label

EXECUTIVE MANAGEMENT

as at 1 October 2006

- CHIEF EXECUTIVE
  Wayne Hook
  - SPAR DISTRIBUTION
    - DIVISIONAL MD SPAR KWAZULU-NATAL
      Rob Philipson
    - DIVISIONAL MD SPAR WESTERN CAPE
      Bill Brown
    - DIVISIONAL MD SPAR EASTERN CAPE
      Conrad Isaac
    - DIVISIONAL MD SPAR NORTH RAND
      Bill Gordon
    - DIVISIONAL MD SPAR SOUTH RAND
      Ian Gillespie
    - DIVISIONAL MD SPAR LOWVELD
      Brett Botten
  - GROUP SERVICES
    - CHAIRMAN SPAR GUILD
      & RETAIL OPERATIONS EXECUTIVE
      Brian Beavon
    - INFORMATION SERVICES EXECUTIVE
      Enno Stelma
    - FINANCIAL DIRECTOR
      Rodney Coe
    - MARKETING EXECUTIVE
      Roelf Venter
    - HUMAN RESOURCES EXECUTIVE
      Richard Dady
    - LOGISTICS EXECUTIVE
      Trevor Currie
    - COMPANY SECRETARY
      Kevin O'Brien
  - BUILD IT
    - DIVISIONAL MD
      Ray Whitmore


confectionery
8.45
4.25
3.95

CORPORATE GOVERNANCE

The SPAR Group Limited is committed to the principles of transparency, integrity, accountability and openness in its dealings with all its stakeholders and subscribes to the Code of Corporate Practices and Conduct as embodied in the King II report. The board is of the opinion that the group complies in all material respects with the principles embodied in the aforementioned code. The board is committed to ensuring that compliance with these principles remains an integral part of the manner in which the group conducts its business.

BOARD OF DIRECTORS

The company has a unitary board of directors which comprises six independent non-executive directors and two executive directors. An independent non-executive director acts as the chairman of the board. The roles of the chairman and the chief executive are separated and a clear division of authority exists between these roles. The non-executive directors represent a wide range of skills and have financial and commercial experience, and are aware of their duties to ensure that the group maintains a high standard of corporate governance. Details and qualifications of the directorate are provided elsewhere in this report. There are no contracts of service between the non-executive directors and the company or any group company. One third of the directors retire each year, on a rotation basis, in terms of the company's Articles of Association.

The board operates in terms of a Board Charter which sets out its role and responsibilities.

The board of directors is responsible for the performance and the affairs of the group, and retains full and effective control over the group. The board determines the strategic direction of the group and monitors executive management in the implementation and execution thereof. The board meets formally four times a year and reviews strategy, operational performance, capital expenditure, internal controls, communications and other material aspects pertaining to the group's business. The board has put in place various Levels of Authority policies within which the executive management may operate. The board acts as the guardian of the values and ethics of the group.

The board has constituted two committees, the Audit and Risk Committee and the Remuneration and Nominations Committee, to address matters requiring specialised attention. The board acknowledges its accountability to the group's stakeholders for the actions of these committees and is satisfied that they have met their respective responsibilities for the year under review.

AUDIT AND RISK COMMITTEE

The activities and responsibilities of the committee are set out in the group's Audit and Risk Management Committee Charter, which has been approved by both the board and the committee. In accordance with the charter requirements, the committee has three independent non-executive directors as committee members.

Activities and responsibilities include:

- ensuring that management creates and maintains an effective control and risk management environment throughout the group;
- reviewing the scope and outcome of audits. These reviews address the adequacy and effectiveness of the group's internal controls and procedures, compliance with the King II code, the effectiveness of the risk management framework and compliance with other legal, statutory and regulatory matters;
- ensuring compliance with accounting policies and practices. This includes examining and reviewing the group's interim and annual financial statements and the annual report with a view to ensuring that disclosure of information is adequate and fairly and timeously presented;
- the identification of operational and financial risks and addressing of such risks.

The committee is required to meet formally at least twice a year. The chief executive, financial director and a representative of both the external and internal auditors are required to attend meetings. The group internal audit manager and the external auditors have unfettered access to members of the committee and the chief executive and attend all formal committee meetings. Members of the group's executive management team attend meetings as required. The committee reports on its findings to the board after each formal committee meeting

The group has an independent, objective and effective internal audit department. Internal audit operates within the parameters of an approved Internal Audit Charter. The internal audit function reports to the finance director, but has a direct reporting line to the Audit and Risk Committee.

The Audit and Risk Committee recommends to the board the appointment of the external auditors. The committee also considers the independence of the external auditors, and has set principles for the use of external auditors in providing non-audit services. Consultation and co-operation between the external and internal auditors is extensive and encouraged by the board.

The Audit and Risk Committee reviews risk philosophy, risk identification and risk management procedures implemented by management and assesses the effectiveness of compliance with such procedures. Risks reviewed specifically include operational risk, information technology risk, treasury and investment risk, legal risk and insurance risk.

REMUNERATION AND NOMINATIONS COMMITTEE

The function of the Remuneration and Nominations Committee, as set out in its charter, is to review the group's remuneration strategy and to ensure that executive directors and executive management are appropriately remunerated. The group's remuneration philosophy is formulated to attract, motivate and retain directors and executives needed to successfully run and manage the business operations of the group.

The committee, consisting of three independent non-executive directors and the chief executive, is responsible for recommending to the board, on an annual basis, the remuneration packages of the executive directors and executive management. The chief executive appraises the committee of the salary packages of senior managers whose remuneration is not determined by the committee. The committee oversees the operation of the group's incentive bonus schemes and approves the allocation of share options. The committee consults with the chief executive in determining specific remuneration packages.

Executive directors and executive management are participants of the group's incentive bonus scheme, which remunerates executives based on the achievement of both financial targets and functional objectives. Objectives are set annually.

Independent external studies and comparisons are undertaken to ensure that remuneration is market related and linked to both individual performance and group performance.

The committee is responsible for making recommendations to the board on all fees payable to non-executive directors for membership of the board and any sub-committee. The committee gives consideration to the composition of the board and will make appropriate representations to the board.

MEETING ATTENDANCE

The following is a list of board and committee meetings attended by the directors:

A: Indicates the number of meetings held during the period for which the director was in office.
B: Indicates the number of meetings attended.

Audit and Risk Committee members:
DB Gibbon (chairman), MJ Hankinson, HK Mehta.

Remuneration and Nominations Committee members: MJ Hankinson (chairman), PK Hughes, RJ Hutchison, HK Mehta.

	Board		Audit & Risk Committee		Remuneration & Nominations Committee	
	A	B	A	B	A	B
RW COE	4	4	3	3		
DB GIBBON	4	4	3	3		
MJ HANKINSON	4	4	3	3	2	2
PK HUGHES	4	4	3	3	2	2
RJ HUTCHISON	4	4			2	1
MP MADI	4	3				
HK MEHTA	4	4	3	3	2**	2
P MNGANGA	3*	3				

* Appointed 1 January 2006.
** Appointed 7 February 2006.

CODE OF ETHICS

The group is committed to a policy of dealing fairly and with integrity in the conduct of its affairs. The group has in place a Code of Ethics which reflects the group's position on ethics and integrity. Compliance with the Code of Ethics is required of all group employees.

No director, officer or employee of the company may deal either directly or indirectly in the group's shares on the basis of having access to price sensitive information or during closed periods. Closed periods extend from the end of the group's financial half year and year-end until the publication of the relevant results.

The board has no reason to believe that there has been any material non-adherence to the Code of Ethics during the year under review.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NTT TOYOTA DELMAS

SUSTAINABILITY REPORT

Business sustainability demands both an interaction with a wide group of stakeholders and the development and maintenance of positive perceptions of the business from those stakeholders. SPAR understands and accepts that its business can only grow and develop with the endorsement of the interests of the stakeholders it serves. Ranging from shareholders to governmental departments and lobbies, retail members, staff, suppliers and consumers, each of these groupings affect SPAR's business.

SPAR's processes, policies and practices which give substance to the principles of triple bottom line reporting and to the varied interests of its stakeholders, are interwoven with the group's corporate governance principles, in which can be found the group's underlying values and ethics.

Transformation geared towards sustainable growth is a key group objective. The business case for such transformation is clear, and progress has been within the bounds of reality and practicality. The imperative for sustainable transformation has extended through the group's decentralised business model to its operating divisions and to all levels of the organisation. Management and staff are accountable for their contributions to sustainability, and SPAR accepts its responsibility for the long-term sustainability of the business in the interests of all stakeholders.

Monitoring of progress is essential. While not yet all-encompassing, several matrices have been installed which are beginning to integrate the tracking of sustainable transformation. Others are in the process of being developed. The data generated will provide the impetus for future action.

The business case is aimed, amongst other things, at attracting, retaining and growing SPAR's talent pool, market penetration and footprint, driving operational efficiencies, cementing relationships with appropriate government departments, the communities and suppliers, and gaining general acceptance for SPAR's "licence" to trade.

Congruent with this is the requirement to sustain and grow the base of independent SPAR retailers. The value proposition is designed to attract potential retail members to the SPAR fold, and to retain and develop this customer base. Services and assistance are provided across all functional and technical areas for successful modern retailing. The services offered are at sustainable world class levels. The independence of the SPAR retailers and the maintenance of the decentralised SPAR model are critical to the growth of the organisation.

OPERATIONAL EFFICIENCY

Central to the customer value proposition is enhancing customer service, improving efficiencies and cost reduction within the wholesaling and distribution chain. The group's training initiatives centre around these goals.

The group's 12 Ladders (a comparative measure of world class performance across 12 indices) and Work Structuring processes continue to be successfully applied, and the teamwork principle has continued to become increasingly entrenched in all divisions. The "Amafela" teamwork initiative in the Eastern Cape, despite its great success as a show piece example to the other divisions, is in the process of being revamped and reinvented to take it to a higher level. A new process "SPARRING for Quality", introduced to drive quality improvements within work processes, was successfully piloted at Western Cape and is being rolled out to other divisions.

Technologically-based interventions, such as the introduction of radio frequency and voice activated picking have generated much staff enthusiasm, whilst at the same time having improved efficiencies. At retail the newly written dropshipment invoicing and receiving software, and the introduction of SIGMA, enhanced backdoor operating software, will improve retailers' efficiencies.

STAFF VALUE PROPOSITION

SPAR is seen by its staff as a good employer. The group is however examining its staff value proposition to ensure it remains appropriate to the attracting and retaining of bright, young and talented X and Y generation individuals. Aspiring employees will be SPAR's staff reservoir for the future and SPAR is determined to remain an employer of choice. The group remains committed to market related conditions of service and service equity, from entry to eventual retirement and to creating employment conditions whereby individual members of staff can "live the brand".

A succession planning process to identify future leadership is in the process of being implemented. Identified high potential employees will be measured against performance criteria and will be closely mentored to prepare individuals for leadership positions.

Recruitment continues to be directed towards satisfying the group's employment equity plans.

EMPLOYMENT EQUITY

SPAR has adopted an employment equity policy that promotes equal opportunity and fair treatment in employment through the elimination of discriminatory practices. All distribution facilities are compliant with the Employment Equity Act, with plans and goals having been established and equity reports submitted. Equality of opportunity is underpinned by an affirmative action programme with progress being closely monitored.

BROAD-BASED BLACK ECONOMIC EMPOWERMENT

SPAR unequivocally supports the principle of Broad-based Black Economic Empowerment ("BBBEE"). The group was recently provisionally rated by Empowerdex as a C Level contributor. The rating provides a base from which to progress, whilst awaiting the finalisation of the Department of Trade and Industry's BEE Codes of Good Practice.

Ownership

The Employee Share Option Scheme was again utilised to issue share options (based primarily on service criteria) to a broad band of employees at all levels of employment. The issue of share options across such a broad band of employees has created considerable goodwill within the company.

Skills development

All distribution centres are compliant with the Skills Development Act. Emphasis continues to be placed on the development of focused technical, supervisory and management competence. The spend on skills development amounted to some R10.4 million or 2.04% of total employment cost.

The SPAR Academy of Learning maintained its accreditation with the Wholesale & Retail Sector Education and Training Authority (SETA), and its links to the Transport Education and Training Authority. The Academy remains the engine room for the group's development drive and is the umbrella body for the training and development of distribution centre staff, whilst at the same time being a service provider to SPAR retailers. The Academy recorded a substantial increase in the number of training courses run and in the number of participants attending training courses.

SPAR remains committed to the National Skills Development Strategy learnership program. At year-end there were 121 Section 18(1) unemployed learners (98% black) and 64 Section 18(2) employed learners (56% black) undergoing training.

National Certificates were awarded in the following disciplines:

- Professional Driving (NQF3)
- Drivers (NQF3)
- Freight Handling (NQF3)
- Office Administration (NQF3)
- Servicing Vehicles (NQF2)
- W & R Supervision (NQF4)
- Team Leader (NQF3)
- Information Technology (NQF4)
- Generic Management (NQF4)
- Forklift Mechanic – Apprenticeship

National Diplomas were awarded in the following disciplines:

- Freight Logistics (NQF5)
- Education, Training and Development (NQF5)
- Education, Training and Development (NQF4)
- Retail Operations Management (NQF5)

The group has an internal bursary scheme, which provides funds for the tertiary education of employees' children. 36 internal bursaries were awarded to children of black employees.

Leadership development

An intensive two-year in-house trainee manager programme continues to provide a successful conduit into management and is particularly important to SPAR's employment equity initiatives. The programme is one of the pipelines feeding the group's future leadership pool. Of the 19 trainee managers enrolled in 2005, several completed the programme during 2006 and have been appointed to junior management positions. Of the 28 new and existing trainee managers, 23 are black.

SPAR continues to develop senior level managers and again sent four delegates to the University of Cape Town's Management Development Program.

The SPAR Academy introduced two exciting interventions aimed at developing potential management leaders. The first, a one-year programme, branded SLDP, (SPAR Leadership Development Programme) is aimed at improving senior level skills to prepare candidates for future executive positions through a process of mentoring and coaching, self assessment and structured behavioural change. There were nine candidates on the pilot programme, six of whom were black.

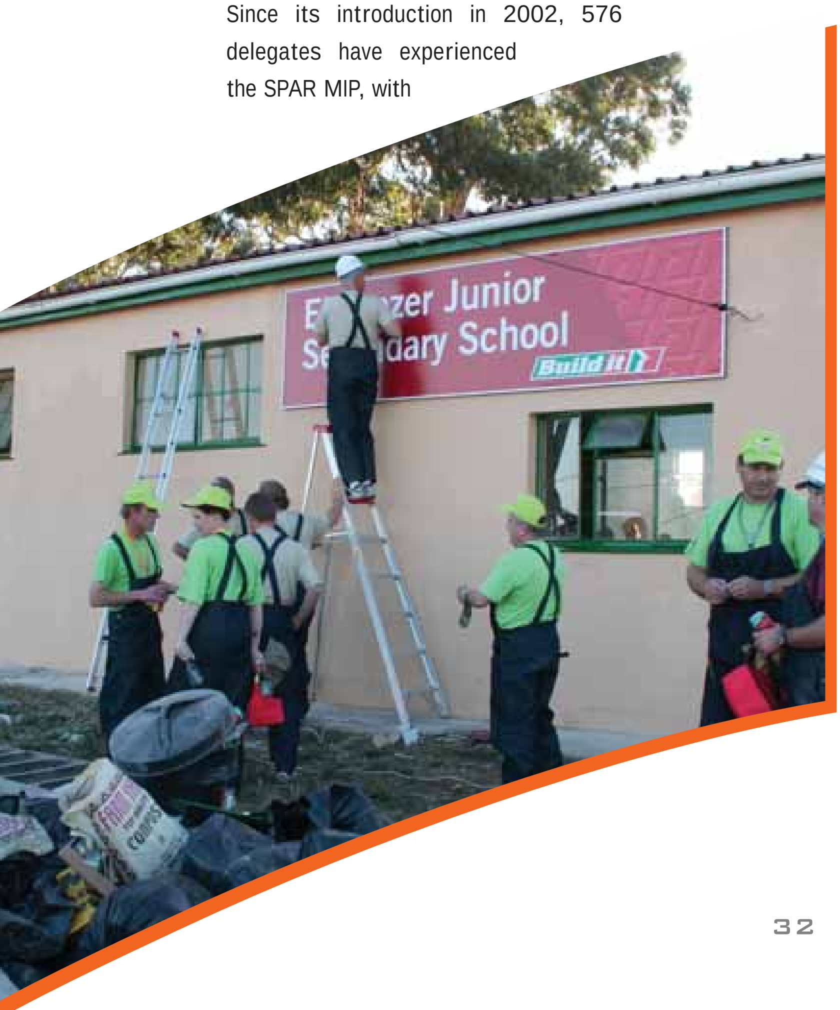
The second programme, the FLDP programme (Fundamental Leadership Development Programme), targets the development of potential leaders at a very junior level and prepares them for entry into the leadership pipeline. All 75 delegates on this programme were black.

Both programmes were well received and successfully delivered. Due to their impact it is intended to repeat the programmes in 2007.

The group recovered through the SPAR Academy in excess of R1.8 million in grant recoveries this year.

SPAR Retail College

SPAR's Retail College Management Induction Programme (MIP) developed for both SPAR and Build it retailers again enjoyed excellent support. The courses deal with basic retailing skills relating to SPAR and Build it stores. Since its introduction in 2002, 576 delegates have experienced the SPAR MIP, with 224 delegates having attended the Build it MIP, since its release in 2003. Of the above number of delegates, 117 were female and 193 were black.



Procurement

The critical importance of affirmative procurement to BEE is acknowledged. During the year the BEE data of more than 3 000 suppliers was logged. However, it is apparent that greater detail is required and an enhanced system of data capture needs to be developed. Affirmative procurement will become easier to monitor as more suppliers are rated for their contributions to BEE. The SPAR score for affirmative procurement spend as a percentage of total procurement for 2006 was 7.6%. From this base, targets for 2007 will be established and monitored.

Enterprise development

The opening of further retail outlets is an imperative for the growth of SPAR. Growth in turn provides an opportunity for the identification and facilitation of black entrants into retail which is one of the primary contributions that SPAR makes to BEE. The development of black entrepreneurs as retail members of either SPAR or Build it provides not only a growth opportunity, but a means of creating jobs, thereby contributing to the alleviation of poverty.

At September 2006 there were 107 black-owned stores (8.9% of total stores), trading under SPAR or Build it banners, up from 82 outlets at September 2005.

Of the 118 new stores developed during the year, 20% were black owned. At an average staff complement of 30, this growth resulted in the creation of some 3 500 new jobs in the economy.

The group expended some R12 million of non-recoverable expenditure on the development and ongoing support of black-owned stores.

Corporate Social Investment (CSI)

SPAR's CSI budget amounts to 1% of post tax profit, with selected programmes focusing on previously disadvantaged people and communities.

The CSI budget is allocated to the following specific areas:

- AIDS projects identified by distribution centres and central office;
- Business Against Crime; and
- Local projects and charities assisting with the alleviation of health and hunger and the promotion of education.

Specific criteria are laid down in respect of the AIDS projects including the ability of the group to develop a longer-term relationship with the institution. The group maintained its support of the following institutions: Gozololo, Cotlands, Sparrow Ministries, Hillcrest AIDS Centre, Outreach Today, Arebaokeng Child Care Centre and Lebone House. Support was also given to the MCN Village Care Centre, the JL Zwane Centre and Ubuntu House.

In addition to CSI spend, the group's sponsorships are targeted at women's sports and the development thereof. Inclusive of sponsorships the SPAR's CSI spend for the year was R10.4 million.

SAFETY AND HEALTH

The group is committed to ensuring that in all spheres of activity it will conduct itself in a way that is safe, healthy and environmentally friendly. These issues form an integral part of the group's comprehensive risk management philosophy. A risk management programme is in place which is audited on a regular basis by an external risk management service. The group's risk management function is monitored and reviewed by the group's Audit and Risk Committee.

Risk management encompasses the health and safety of all members of staff, with specific emphasis on:

- Emergency planning;
- Health and Safety;
- Transport;
- Fire; and
- Security.

The group is compliant with the OHS Act and other relevant legislation. Staff is trained in general awareness and their responsibilities to maintaining a safe working environment. Safety committees and elected and trained representatives function at all distribution centres.

Targets are set relative to key risk measurements, such as disabling injuries and vehicle accidents per distance travelled, and action taken if targets are not met. No major incidents occurred during the year.

Responsibility and awareness of the environment is integral to the group's operations, and falling within this ambit are the elements of pollution, ventilation, hazardous installations and resource conservation. These issues receive appropriate attention.

HIV / AIDS

The group includes HIV/AIDS in its Chronic Disease Policy. Such diseases may have a detrimental effect on the sustainability of the business, and the group seeks to minimise the impact through ethical means and to protect the rights of infected staff. Awareness programmes in respect of chronic diseases are offered, and all staff is encouraged to have age appropriate medicals to establish their susceptibility to chronic diseases.

Distribution centres provides clinic facilities for staff that have opted not to join medical schemes. These clinics provide the channel through which the HIV/AIDS processes are maintained.

The HIV/AIDS processes dealt with on site include voluntary CD4 count testing, pre test, post test, and lifestyle counseling, provision of condoms, treatment of opportunistic infections and STDs and the provision of vitamin supplements. Clinics establish a relationship with local hospitals to ensure that ARVs appropriate to the infected individual's CD4 count are issued with the clinic monitoring adherence to the regime.

CRIME

Unquestionably the levels of crime in the country inhibit both growth and threaten the sustainability of business. SPAR has appointed personnel in a number of its distribution centres to co-ordinate liaison with affected wider groups and security forces. SPAR actively encourages the adoption of appropriate best practices by retailer members, and conducts risk assessments at outlets to limit security risk. The Robbery Action Plan presentation, which forms part of SPAR's MIP courses, highlights risks facing retailers. The presentation has been well received by retailers.

The group is directly and actively involved in the CGCSA Crime Prevention Programme which has been in operation since 2002. Considerable progress was made during the year in analysing crime data collected on the incident management system in order to proactively predict crime hot spots and *modus operandi*.

As part of the group's CSI spend, each distribution centre is closely involved with a variety of anticrime initiatives in collaboration with regional Business Against Crime offices. One such initiative has been the Support Programme for Police Stations, which is significantly funded by SPAR. The initiative aims to strengthen leadership and effective management in police stations in support of the South African Police Services' quest for improved service and performance.

With the focus very much on violent crime, SPAR recorded a 32% reduction in armed robbery incidents whilst the sector showed a 30% increase. Constant attention is given to effective cash management aimed at making SPAR stores less attractive to criminal gangs.

A national agreement has been concluded with Trauma Assist to provide professional counseling to staff and customers affected by violent crime.

The employee reference site aimed at confirming the employment history of potential employees is well established and widely used.

SECTOR COLLABORATION

SPAR is proactive in actively representing its interests and participating at such industry forums as:

- Consumer Goods Council of South Africa;
- The Retailers' Association, and through their offices, Business Unity South Africa. SPAR is represented on the directorate of the Commission for Conciliation, Mediation and Arbitration;
- The Wholesale and Retail Sector Education and Training Authority and its Standards Generating Body; and
- The Transport Education and Training Authority.

SPAR

FINANCIAL OVERVIEW

FOUR-YEAR REVIEW

R million	IFRS **2006**	IFRS 2005	SA GAAP 2004	SA GAAP 2003
GROUP INCOME STATEMENTS				
Revenue	**17 177**	13 737	12 105	10 121
Operating profit	**603**	499	395	349
Interest received	**22**	6	12	26
Interest paid	**(6)**	(5)	(3)	(4)
Net profit before taxation	**619**	500	404	371
Profit on disposal of discontinued operations			21	
Taxation	**(211)**	(157)	(133)	(118)
Net profit attributable to ordinary shareholders	**408**	343	292	253
GROUP BALANCE SHEETS				
ASSETS				
Property, plant and equipment	**519**	370	295	311
Goodwill	**246**	246	247	7
Loans and investments	**57**	17	25	38
Operating lease receivables	**16**	12		
Deferred taxation asset		8	7	5
Current assets	**2 699**	2 050	1 683	1 415
Total assets	**3 537**	2 703	2 257	1 776
EQUITY AND LIABILITIES				
Capital and reserves	**892**	751	437	528
Deferred taxation liability	**6**			
Post retirement medical aid provision	**50**	46	37	33
Long-term borrowings	**1**	1	2	4
Operating lease payables	**16**	13		
Current liabilities	**2 572**	1 892	1 781	1 211
Total equity and liabilities	**3 537**	2 703	2 257	1 776
GROUP CASH FLOW STATEMENTS				
Cash flows from operating activities	**564**	421	354	(40)
Dividends paid	**(191)**	(51)	(383)	(69)
Cash flows from investing activities	**(238)**	(61)	(308)	(120)
Cash flows from financing activities	**(94)**	(2)	(6)	
Net increase/(decrease) in cash and cash equivalents	**41**	307	(343)	(229)

RATIOS AND STATISTICS

		IFRS 2006	IFRS 2005	SA GAAP 2004	SA GAAP 2003
SHARE PERFORMANCE					
Number of ordinary shares (net of treasury shares) upon which headline earnings per share is based	millions	**167.2**	169 .3		
Headline earnings per share	cents	**240.0**	203.8		
Dividends per share	cents	**123.0**	94.5		
Dividend cover	multiple	**1.95**	2.15		
Net asset value per share	cents	**533.5**	443.6		
INCOME STATEMENT INFORMATION					
Gross margin	%	**8.4**	8.8	9.2	8.8
Operating profit margin	%	**3.5**	3.7	3.3	3.4
Headline earnings	R million	**406.7**	344.4	284.1	260.6
SOLVENCY AND LIQUIDITY					
Return on equity	%	**49.6**	57.7	60.5	58.1
Return on net assets	%	**75.1**	67.1	65.1	122.1
EMPLOYEE STATISTICS					
Number of employees at year-end		**2 277**	2 221	2 260	2 536
STOCK EXCHANGE STATISTICS*					
Market price per share					
– at year-end	cents	**3 635**	3 090		
– highest	cents	**4 020**	3 090		
– lowest	cents	**2 751**	1 925		
Number of share transactions		**26 121**	25 867		
Number of shares traded	millions	**107.8**	180.1		
Number of shares traded as a percentage of total issued shares	%	**64.5**	106.4		
Value of shares traded	R million	**3 717**	4 069		
Earnings yield at year-end	%	**6.6**	6.6		
Dividend yield at year-end	%	**3.4**	3.1		
Price earnings ratio at year-end		**15.1**	15.2		
Market capitalisation at year-end net of treasury shares	R million	**6 078**	5 229		
Market capitalisation to shareholders' equity at year-end	multiple	**6.8**	7.0		

* The SPAR Group Limited's shares listed on the JSE Limited on 18 October 2004. Stock exchange statistics for the group's 2003 and 2004 financial years are therefore not applicable.

DEFINITIONS, RATIOS AND STATISTICS

SHAREHOLDERS' RATIOS

Basic earnings per share

Attributable profit divided by the weighted average ordinary shares in issue during the year.

Basic earnings per share – diluted

Attributable profit divided by the fully diluted weighted average ordinary shares in issue during the year.

Headline earnings per share

Headline earnings divided by the weighted average ordinary shares in issue during the year.

Headline earnings per share – diluted

Headline earnings divided by the fully diluted weighted average ordinary shares in issue during the year.

Dividend cover

Headline earnings per share divided by dividends per share for the year, comprising the interim dividend paid and the final dividend declared post year-end.

Net asset value per share

Ordinary shareholders' equity at year-end divided by the ordinary shares in issue at year-end excluding treasury shares.

INCOME STATEMENT INFORMATION

Gross margin

Gross profit expressed as a percentage of turnover.

Operating profit margin

Operating profit expressed as a percentage of turnover.

Headline earnings

Headline earnings consist of the earnings attributable to ordinary shareholders, excluding non-trading and capital items.

SOLVENCY AND LIQUIDITY

Return on equity

Attributable profit expressed as a percentage of the average total equity.

Return on net assets

Operating profit expressed as a percentage of average net assets.

ANNUAL FINANCIAL STATEMENTS

for the year ended 30 September 2006

CONTENTS *Page*

DIRECTORS' APPROVAL OF ANNUAL FINANCIAL STATEMENTS

The directors of the company are responsible for the maintenance of adequate accounting records and the preparation and integrity of the financial statements and related information. The financial statements have been prepared in accordance with International Financial Reporting Standards ("IFRS") and in the manner required by the Companies Act. The group's independent external auditors, Deloitte & Touche, have audited the financial statements and their unmodified report is enclosed.

The directors are also responsible for the systems of internal control. These controls are designed to provide reasonable but not absolute assurance as to the reliability of the financial statements, and to adequately safeguard, verify and maintain accountability of the assets, to record all liabilities, and to prevent and detect material misstatement and loss. The systems are implemented and monitored by suitably trained personnel with appropriate segregation of authority and duties. Nothing has come to the attention of the directors to indicate that any material breakdown in the functioning of these controls, procedures and systems has occurred during the year under review.

In preparing the financial statements, the company and group have used appropriate accounting policies, supported by reasonable judgements and estimates, and have complied with all applicable accounting standards. The directors are of the opinion that the financial statements fairly present the financial position of the company and the group at 30 September 2006 and the results of their operations for the year under review.

The annual financial statements are prepared on the going concern basis. Nothing has come to the attention of the directors to indicate that the company will not remain a going concern for the foreseeable future.

The annual financial statements were approved by the board of directors on 14 November 2006 and are signed on its behalf by:

MJ Hankinson
Chairman

PK Hughes
Chief Executive for the year under review

14 November 2006

CERTIFICATE BY COMPANY SECRETARY

I certify that the company has lodged with the Registrar of Companies all returns that are required of a public company in terms of section 268G(d) of the Companies Act in respect of the year ended 30 September 2006 and that all such returns are true, correct and up to date.

KJ O'Brien
Company Secretary

14 November 2006

INDEPENDENT AUDITOR'S REPORT

TO THE MEMBERS OF THE SPAR GROUP LIMITED

We have audited the annual financial statements and the group annual financial statements of The SPAR Group Limited set out on pages 44 to 85 for the year ended 30 September 2006. These financial statements are the responsibility of the company's directors. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our audit in accordance with International Standards on Auditing. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

In our opinion, the financial statements present fairly, in all material respects, the financial position of the company and of the group at 30 September 2006, and the results of their operations and cash flows for the year then ended in accordance with International Financial Reporting Standards and in the manner required by the Companies Act of South Africa.

Deloitte + Touche

Deloitte & Touche
Registered Auditors
Per JAR Welch
Partner – Audit KZN

14 November 2006

2 Pencarrow Crescent
La Lucia Ridge Office Estate
Durban

National Executive: GG Gelink (Chief Executive), AE Swiegers (Chief Operating Officer), GM Pinnock (Audit), DL Kennedy (Tax), L Geeringh (Consulting), MG Crisp (Financial Advisory), L Bam (Strategy), CR Beukman (Finance), TJ Brown (Clients & Markets), SJC Sibisi (Public Sector and Corporate Social Responsibility), NT Mtoba (Chairman of the Board), J Rhynes (Deputy Chairman of the Board)

Regional Leader: G Brazier

A full list of partners and directors is available on request.

DIRECTORS' STATUTORY REPORT

PRINCIPAL ACTIVITY OF THE COMPANY

The principal activity of the company is as a wholesaler and distributor of goods and services to SPAR retail grocery stores, Build it builders' merchandise outlets, and TOPS at SPAR liquor stores. The group operates six modern distribution centres which are strategically located close to the major cosmopolitan areas. These distribution centres service SPAR stores, Build it outlets and TOPS at SPAR stores across South Africa and neighbouring countries.

FINANCIAL RESULTS

The net profit attributable to shareholders for the year ended 30 September 2006 amounted to R407.6 million (2005: R342.6 million). This translates into headline earnings per share of 240.0 cents (2005: 203.8 cents) based on the weighted average number of shares in issue during the year.

SHARE CAPITAL

Details of the authorised and issued share capital of the company are set out in note 19.

During the year, The SPAR Group Limited Employee Share Trust (2004) purchased 2 740 725 shares of The SPAR Group Limited for R99.8 million. At year-end, these shares were accounted for as treasury shares (refer note 20).

SHARE OPTION SCHEME

Details of the un-issued shares of the company subject to option, in terms of The SPAR Group Limited Employee Share Trust (2004), are as follows:

	2006	2005
Shares under option at the beginning of the year	**13 121 819**	6 855 018
Options granted	**2 435 500**	7 028 400
Options exercised and paid in full	**(675 900)**	(496 365)
Options lapsed or cancelled	**(447 700)**	(265 234)
Shares under option as at year-end (refer note 19)	**14 433 719**	13 121 819
Options available for issue	**8 995 632**	11 431 132

Details of options granted are set out in note 19.2.

DIVIDENDS

A final dividend of 64.5 cents in respect of 2005 was declared on 14 November 2005 and paid on 12 December 2006. An interim dividend of 48 cents per share was declared on 26 May 2006 and paid on 5 June 2006. A final dividend of 75 cents per share was declared on 14 November 2006, payable on 11 December 2006.

The salient dates for the payment of the final dividend are detailed below:

Last day to trade cum-dividend	Friday, 1 December 2006
Shares to commence trading ex-dividend	Monday, 4 December 2006
Record date	Friday, 8 December 2006
Payment of dividend	Monday, 11 December 2006

Shareholders will not be permitted to dematerialise or rematerialise their share certificates between Monday, 4 December 2006 and Friday, 8 December 2006, both days inclusive.

DIRECTORATE

Details of the directors of the company at the date of this report are disclosed on page 16 and 17.

Ms P Mnganga was appointed on 1 January 2006 as an independent non-executive director.

In terms of the company's Articles of Association, one third of the non-executive directors retire annually by rotation at the annual general meeting ("AGM"). Accordingly Messrs RJ Hutchison and MP Madi retire at the AGM to be held on Wednesday, 7 February 2007, but offer themselves for re-appointment.

Effective 1 October 2006, Mr PK Hughes retired as chief executive officer but continues to serve the group as a non-executive director. Mr WA Hook was appointed as chief executive officer from the aforementioned date.

At 30 September 2006 the directors beneficially held 4 000 (2005: 2 000) shares in the company and unexercised options to acquire a total of 606 100 (2005: 414 600) ordinary shares in the company (refer note 30).

SUBSIDIARIES

The interest of the company in the aggregate net profit after taxation of subsidiaries was R28.5 million (2005: R21.1 million). Details of the company's subsidiaries are set out in note 35.

EVENTS SUBSEQUENT TO BALANCE SHEET DATE

The directors are not aware of any matters or circumstances arising since the end of the financial year which have or may significantly affect the financial position of the group or the results of its operations.

ACCOUNTING POLICIES

ADOPTION OF NEW AND REVISED INTERNATIONAL FINANCIAL REPORTING STANDARDS

The financial statements are prepared in accordance with International Financial Reporting Standards ("IFRS").

During the current year the group adopted all relevant new and revised Standards and Interpretations issued by the International Accounting Standards Board ("IASB") and the International Financial Reporting Interpretations Committee ("IFRIC") of the IASB and effective for accounting periods beginning on or after 1 January 2005. The adoption of these Standards and Interpretations resulted in changes to the group's accounting policies. Arising from the adoption of IFRS, the following standards have resulted in changes:

IFRS 1	First-time Adoption of International Financial Reporting Standards;
IFRS 2	Share Based Payments;
IFRS 4	Insurance Contracts;
IAS 24	Related Party Disclosures;
IAS 28	Investments in Associates; and
IAS 29	Financial Reporting in Hyperinflationary Economies.

The impact of the adoption of the aforementioned standards is disclosed in note 1.

At the date of these financial statements, the following Standards and Interpretations, relevant to the group, were in issue but not yet effective:

IFRS 7	Financial Instruments – Disclosures (effective 1 January 2007);
IFRIC 4	Determining whether an Arrangement Contains a Lease (effective 1 January 2006);
IFRIC 7	Applying the Restatement Approach under IAS 29 Financial Reporting in Hyperinflationary Economies (effective 1 March 2006); and
IFRIC 10	Interim Financial Reporting and Impairment (effective 1 November 2006).

The directors anticipate that the adoption of the aforementioned Standards and Interpretations will not have a material impact on the profits for the group. IFRS 7 will result in additional disclosures relating to financial instruments.

BASIS OF CONSOLIDATION

The consolidated financial statements incorporate the results and financial position of the company and all its subsidiaries, which are defined as entities over which the group has the ability to exercise control so as to obtain benefits from their activities. The results of subsidiaries are included from the effective dates of acquisition and up to the effective dates of disposal. All inter-company transactions and balances between group companies are eliminated.

The company has effective control of The SPAR Guild of Southern Africa and The Build it Guild of Southern Africa and the assets and liabilities of these entities are consolidated with those of the company. As the company acts as an agent of these guilds, the income and the expenditure of the guilds has been off set and not consolidated.

Investments acquired with the intention of disposal within twelve months are not consolidated.

PROPERTY, PLANT, EQUIPMENT AND VEHICLES AND DEPRECIATION

Property, plant and equipment is stated at cost less accumulated depreciation (except for land) and any accumulated impairment losses. Land is stated at cost and is not depreciated.

Land and buildings are held for use in the supply of goods.

Owner-occupied buildings are depreciated at 2% per annum on the straight-line basis. No revaluations have been made to property since 1984.

The cost less residual values of other plant and equipment are depreciated over their estimated useful lives on a straight-line basis. The useful lives and residual values of all assets are reviewed annually and are adjusted should any changes arise. The following depreciation rates apply:

Vehicles	10% to 25% per annum
Plant and equipment	8.3% to 33.3% per annum
Furniture and fittings	20% to 33.3% per annum
Computer equipment	10% to 33.3% per annum

Where assets are identified as being impaired, that is when the recoverable amount has declined below the carrying amount, the carrying amount is reduced to reflect the decline in value.

Property, plant and equipment subject to finance lease agreements are capitalised at the cash cost equivalent and the corresponding liabilities raised. Lease finance charges are charged to operating profit as they fall due. These assets are depreciated over their expected useful lives on the same basis as owned assets or, where shorter, the term of the lease. Profit and loss on disposal of property, plant and equipment is recognised in income in the year of disposal.

BUSINESS COMBINATIONS

The acquisition of subsidiaries is accounted for under the purchase method. The cost of the acquisition are measured at the aggregate of the fair values, at the date of the exchange of assets given, liabilities incurred or assumed, and equity instruments issued by the group in exchange for control of the acquiree, plus any cost directly attributable to the business combination. The acquiree's identifiable assets, liabilities and contingent liabilities that meet the conditions for recognition under IFRS 3 are recognised at their fair values at acquisition date, except for non-current assets held for sale, which are recognised at fair value less cost to sell. Goodwill arising on acquisition is initially recognised at cost. Negative goodwill is immediately recognised to profit or loss.

GOODWILL

Goodwill arising on the acquisition of subsidiaries represents the excess of the cost of acquisition over the group's interest in the fair value of the identifiable assets, liabilities and contingent liabilities of the subsidiary recognised at the date of acquisition. Goodwill is initially recognised as an asset at cost and is subsequently measured at cost less any accumulated impairment losses.

For the purpose of impairment testing, goodwill is allocated to each of the group's cash-generating units. Cash-generating units to which goodwill has been allocated are tested annually for impairment or more frequently when there is an indication that the cash-generating unit may be impaired. An impairment loss recognised for goodwill is not reversed in a subsequent period. On disposal of a subsidiary, attributable goodwill is included in the determination of the profit or loss on disposal.

INVESTMENTS IN SUBSIDIARIES

Investments in subsidiaries are stated at cost less amounts written off to provide for diminution in the net asset values of subsidiaries where appropriate.

INVESTMENT IN ASSOCIATES

Associates are those companies, which are not subsidiaries, over which the group exercises significant influence. Significant influence is the power to participate in the financial and operating policy decisions of the investee but is not control or joint control over these decisions. Associate companies are accounted for using the equity method except where the investment is classified as held for sale, in which case it is accounted for under IFRS 5 Non-current Assets Held for Sale and Discontinued Operations. Equity accounted income represents the group's proportionate share of the associate's post-acquisition accumulated profit after accounting for dividends declared by those entities.

The carrying value of investments in associates represents the cost of each investment including goodwill, the share of post acquisition retained income or losses and other movements in reserves. Losses of an associate in excess of the group's interest in that associate (which includes any long-term interests that, in substance, form part of the group's net investment in the associate) are not recognised. Any excess of the cost of acquisition over the group's share of the fair value of the identifiable assets, liabilities and contingent liabilities of the associate recognised at the date of the acquisition, is recognised as goodwill. The goodwill is included within the carrying amount of the investment and is assessed for impairment as part of the investment.

When a group company transacts with the associate, profit and losses are eliminated to the extent of the group's interest in the relevant associate.

IMPAIRMENT (excluding goodwill)

At each balance sheet date, the group reviews the carrying amounts of its tangible and intangible assets to determine whether there is any indication that those assets have suffered an impairment loss. If any such indication exists, the recoverable amount of the asset is estimated in order to determine the extent of the impairment loss. Where it is not possible to estimate the recoverable amount of an individual asset, the group estimates the recoverable amount of the cash-generating unit to which the asset belongs.

Where an impairment loss is subsequently reversed, the carrying amount of the asset is increased to the extent that the increased carrying amount does not exceed the original carrying value. A reversal of an impairment loss is recognised immediately in profit or loss.

SHARE BASED PAYMENTS

The group has applied the requirements of IFRS 2 Share Based Payments. In accordance with the transitional provisions, IFRS 2 has been applied to all equity instruments issued after 7 November 2002 that had not vested as of 1 January 2005. The group issues equity-settled share based payments to certain employees. These share based payments are measured at fair value at the date of the grant and are expensed on a straight-line basis over the vesting period, based on the group's estimate of shares that will eventually vest. Fair value is measured at grant date by use of a stochastic model, based on the standard "binomial" options pricing model. The expected life used in the model has been adjusted, based on management's best estimate of the effect of non-market vesting conditions.

TAXATION

Income taxation expense represents the sum of tax currently payable and deferred taxation. The tax currently payable is based on taxable profit for the year. Taxable profit will differ from reported profit because it will exclude items of income or expense that are taxable or deductible in other years and it further excludes items that are never taxable or deductible. The group's liability for current tax is calculated using tax rates that have been enacted or substantially enacted at the balance sheet date. Deferred taxation is recognised on differences between the carrying amounts of assets and liabilities and the corresponding tax bases used in the computation of taxable profit, and is accounted for using the balance sheet liability method. Deferred taxation liabilities are generally recognised for all taxable temporary differences.

Deferred taxation is calculated using taxation rates at the balance sheet date and is charged or credited to the income statement, except when it relates to items credited or charged directly to equity, in which case the deferred taxation is dealt with in equity.

Deferred taxation assets are recognised to the extent that it is probable that taxable profits will be available against which future deductible temporary differences can be utilised. The carrying amount of deferred taxation assets is reviewed at each balance sheet date and reduced to the extent that it is no longer probable that sufficient taxable profits will be available.

Deferred taxation assets and liabilities are not recognised if the temporary difference arises from goodwill, or from the initial recognition (other than business combinations) of other assets and liabilities in a transaction which effects neither the taxable profit nor the accounting profit.

INVENTORIES

Inventories are valued at the lower of cost and net realisable value. Cost is determined on the weighted average basis. Obsolete, redundant and slow moving inventory is identified and written down to estimated economic or realisable values. Net realisable value represents the selling price less all estimated costs to be incurred in marketing, selling and distribution.

POST RETIREMENT MEDICAL AID PROVISION

The company provides post retirement health care benefits to certain of its retirees. The entitlement to these benefits is based on qualifying employees remaining in service until retirement age. The projected unit credit method of valuation is used to calculate the post retirement medical aid obligations, which costs are accrued over the period of employment. These benefits are actuarially valued every three years with the last valuation having taken place on 30 September 2005. Actuarial gains and losses exceeding 10% of the greater of the present value of the group's defined benefit obligation and the fair value of plan assets are amortised over the expected remaining working lives of the participating employees.

PROVISIONS

Provisions are recognised when the company has a legal or constructive obligation as a result of past events, where it is probable that an outflow of resources embodying economic benefits will be required to settle the obligation, and a reliable estimate of the amount of the obligation can be made.

RETIREMENT BENEFITS

The group contributes to pension and provident funds which are governed by the Pension Funds Act, 1956. The defined contribution funds are reviewed annually by consulting actuaries. Contributions are charged against income as incurred. The defined benefit fund is actuarially valued every three years with the last valuation occurring on 1 March 2005. If the fair value of the plan liabilities exceeds the fair value of the plan assets, the resultant obligation is recognised. The projected unit credit method of valuation is used to calculate the fair value of the plan assets and liabilities.

REVENUE RECOGNITION

Revenue is measured at the fair value of the consideration receivable and represents amounts receivable for goods and services provided in the normal course of business, net of rebates, discounts and sales related taxes.

Sales of goods are recognised when goods are delivered and title has passed.

Advertising revenue consists of contributions from suppliers towards promotional activities and is recognised when the associated advertising and promotional activity has occurred.

Interest income is accrued on the time basis, by reference to the principal outstanding and at the applicable interest rate.

Dividend income from investments is brought to account as and when the company is entitled to receive such dividend unless the dividend is due from an entity which operates under severe long-term restrictions. The dividends from these entities are accounted for on a cash basis.

NON-CURRENT ASSETS HELD FOR SALE

Non-current assets and disposal groups are classified as held for sale if their carrying amount will be recovered through a sale transaction rather than through continuing use. The condition is regarded as only being met when the sale is highly probable and the asset (disposal group) is available for immediate sale in its present condition. Management must be committed to the sale, which should be expected to qualify for recognition as a completed sale within one year from date of classification.

Non-current assets held for sale (disposal groups) are measured at the lower of the asset's carrying amounts and the fair value less costs to sell. The disposal group's income statement is reflected as a "discontinued operation" on the face of the income statement with appropriate comparatives.

FOREIGN CURRENCIES

Transactions in currencies other than in Rands are initially recorded at the rates of exchange ruling on the dates of the transactions. Monetary assets and liabilities denominated in such currencies are translated at the rates ruling on the balance sheet date. Exchange differences arising on the settlement of monetary items or on reporting the group's monetary items at rates different from those at which they were initially recorded, are recognised to profit or loss in the period in which they arise.

The individual financial statements of each group entity are presented in the currency of the primary economic environment in which the entity operates (its functional currency). For the purpose of the consolidated financial statements, the results and financial position of each entity are expressed in Rands, which is the functional currency of the company, and the presentation currency for the consolidated financial statements.

For the purpose of presenting consolidated financial statements, the assets and liabilities of the group's foreign operations (including comparatives) are expressed in Rands using exchange rates prevailing on the balance sheet date. Income and expense items (including comparatives) are translated at the average exchange rates for the period, unless exchange rates fluctuated significantly during that period, in which case the exchange rates at the dates of the transactions are used. Exchange differences arising, if any, are classified as equity and transferred to the group's translation reserve. In the period that the foreign operation is disposed of, such translation differences are recognised in profit or loss.

FINANCIAL INSTRUMENTS

Financial assets and financial liabilities are recognised on the balance sheets when the company or group becomes a party to the contractual provisions of the instrument.

Financial instruments are initially recognised at cost, which includes transaction costs. Subsequent to initial recognition, the instruments are measured as set out below:

- The principal financial assets are cash resources, trade receivables, investments and loans. Trade receivables, loans and cash resources are stated at their nominal value as reduced by appropriate allowances for estimated irrecoverable amounts. In the company's financial statements, the investments in subsidiaries are stated at cost less amounts written off to provide for the diminution in the net asset values of the subsidiaries.
- Financial liabilities are classified according to the substance of the contractual arrangements entered into. Significant financial liabilities include trade and other payables. Trade and other payables are stated at their nominal value.
- Derivative liabilities are recognised at fair value at each reporting date.
- Equity instruments issued by the company are recorded at the proceeds received, net of direct issue costs.

Gains and losses arising from a change in the fair value of financial instruments that are not part of a hedging relationship are included in net profit or loss in the period in which they arise.

Financial assets and financial liabilities are offset and the net amounts are reported in the balance sheet when the group has a legally enforceable right to set-off the recognised amounts and intends to either settle on a net basis, or to realise the asset and settle the liability simultaneously.

FINANCIAL GUARANTEES

Financial guarantee contracts are accounted for as insurance contracts and consequently are measured initially at cost and thereafter as a liability.

LEASED ASSETS

Leases are classified as finance leases whenever the terms of the lease transfer substantially all the risks and rewards of ownership to the lessee. All other leases are classified as operating leases.

In the capacity of lessor:

Amounts due from lessees under finance leases are recorded as receivables at the amount of the group's net investment in the leases. Finance lease income is allocated to accounting periods so as to reflect a constant periodic rate of return on the group's net investment outstanding in respect of the leases.

Rental recoveries received from retailers under property head lease agreements are recognised on the straight-line basis of the relevant lease. These are included with the head lease rental charge in operating expenditure.

In the capacity of lessee:

Assets held under finance leases are recognised as assets of the group at their fair values, or if lower, at the present value of the minimum lease payments, each determined at the inception of the lease. The corresponding liability to the lessor is included in the balance sheet. Lease payments are apportioned between finance charges and reduction of the lease obligation so as to achieve a constant rate of interest on the remaining balance of the liability. Finance charges are charged directly to profit and loss.

Rental costs incurred under operating leases are charged to income on a straight-line basis over the term of the relevant lease.

FOREIGN INVESTMENTS IN HYPERINFLATIONARY ECONOMIES

Foreign subsidiaries and associate investments which operate in a hyperinflationary economy are adjusted for hyperinflation using a general price index. This is in particular applicable to the group's investment in the Zimbabwean associate.

KEY MANAGEMENT JUDGEMENTS

There are a number of areas where judgement is applied in the application of the accounting policies in the financial statements. Significant areas of judgement have been identified as:

SUPPLIER CLAIMS PROVISIONS

Supplier claims provisions represent management's best estimate of the group's liability. The supplier claims provisions represent claims against suppliers which are considered doubtful based on the age of claims and specific supplier circumstances.

IMPAIRMENT OF GOODWILL

Determining whether goodwill is impaired requires an estimation of the value in use of the cash generating unit to which the goodwill relates. The value in use calculation requires the entity to estimate the future cash flows expected to arise from the cash generating unit and a suitable discount rate to calculate the present value. Details of the assumptions used in the impairment test are detailed in note 11.

PROPERTY, PLANT, EQUIPMENT AND VEHICLES

The directors have assessed the useful lives of assets based on historical trends.

POST EMPLOYMENT BENEFITS

The post employment benefits are valued by actuaries taking into account the assumptions as detailed in note 22.

KEY SOURCES OF ESTIMATION UNCERTAINTY

There are no key assumptions concerning the future and other key sources of estimation uncertainty at the balance sheet date that management have assessed as having a significant risk of causing material adjustment to the carrying amounts of the assets and liabilities within the next financial year.

INCOME STATEMENTS

for the year ended 30 September 2006

R million	Notes	GROUP 2006	GROUP 2005*	COMPANY 2006	COMPANY 2005*
REVENUE	2	**17 176.6**	13 737.5	**15 913.6**	12 631.4
OPERATING PROFIT	4	**602.8**	499.5	**590.0**	488.7
Interest received	5	**21.7**	5.6	**21.4**	5.4
Interest paid	5	**(6.1)**	(5.5)	**(4.9)**	(5.2)
Share of associate company's profit	13	**0.3**	0.2		
Profit before taxation		**618.7**	499.8	**606.5**	488.9
Taxation	6	**(211.1)**	(157.2)	**(199.1)**	(146.8)
PROFIT FOR THE YEAR ATTRIBUTABLE TO ORDINARY SHAREHOLDERS		**407.6**	342.6	**407.4**	342.1
EARNINGS PER SHARE (CENTS)	7				
Basic		**240.5**	202.7		
Diluted		**231.7**	198.2		

* Restated for IFRS where applicable.

BALANCE SHEETS

at 30 September 2006

R million	Notes	GROUP 2006	GROUP 2005*	COMPANY 2006	COMPANY 2005*
ASSETS					
NON-CURRENT ASSETS		**836.9**	653.3	**801.4**	635.4
Property, plant and equipment	10	**519.1**	370.2	**464.2**	332.6
Goodwill	11	**245.6**	245.6		
Investment in subsidiaries	35			**267.4**	267.4
Investment in associate	13	**5.5**	5.2	**3.1**	3.1
Loans	14	**51.0**	11.8	**51.0**	11.8
Operating lease receivables	12	**15.7**	12.5	**15.7**	12.5
Deferred taxation asset	15		8.0		8.0
CURRENT ASSETS		**2 699.7**	2 049.8	**2 561.7**	1 825.2
Inventories	16	**449.3**	385.0	**421.0**	359.3
Trade and other receivables		**2 146.3**	1 551.5	**1 964.0**	1 397.6
Prepayments		**12.5**	32.6	**11.1**	32.0
Short-term loan	17	**16.7**	5.8	**116.3**	5.8
Current portion of operating lease receivables	12	**6.3**	6.2	**6.3**	6.2
Amounts owing by subsidiaries				**43.0**	24.3
Bank balances – Guilds	18	**68.6**	68.7		
TOTAL ASSETS		**3 536.6**	2 703.1	**3 363.1**	2 460.6
EQUITY AND LIABILITIES					
CAPITAL AND RESERVES		**892.4**	750.8	**989.5**	748.5
Share capital and premium	19	**13.4**	5.4	**13.4**	5.4
Treasury shares	20	**(99.8)**			
Share based payments reserve	21	**35.0**	18.5	**34.8**	18.5
Retained earnings		**943.8**	726.9	**941.3**	724.6
NON-CURRENT LIABILITIES		**72.1**	60.0	**70.7**	59.0
Deferred taxation liability	15	**6.1**		**5.1**	
Post retirement medical aid provision	22	**49.8**	46.2	**49.8**	46.2
Long-term borrowings	23	**0.4**	1.0		
Operating lease payables	12	**15.8**	12.8	**15.8**	12.8
CURRENT LIABILITIES		**2 572.1**	1 892.3	**2 302.9**	1 653.1
Trade payables and accruals		**2 419.9**	1 722.5	**2 165.5**	1 506.6
Current portion of long-term borrowings	23	**37.6**	39.1	**37.0**	38.4
Current portion of operating lease payable	12	**6.2**	5.9	**6.2**	5.9
Provisions	24	**64.4**	50.0	**58.1**	45.4
Taxation		**16.9**	6.3	**13.3**	6.8
Bank overdrafts	18	**27.1**	68.5	**22.8**	50.0
TOTAL EQUITY AND LIABILITIES		**3 536.6**	2 703.1	**3 363.1**	2 460.6

* Restated for IFRS where applicable.

STATEMENTS OF CHANGES IN EQUITY

for the year ended 30 September 2006

R million	Share capital and premium	Treasury shares	Share based payment reserve	Retained earnings	Attributable to ordinary shareholders
GROUP					
Capital and reserves at 30 September 2004					
– as previously reported	0.1			437.2	437.3
IFRS adjustments (note 1)			3.4	(2.2)	1.2
Restated capital and reserves at 30 September 2004	0.1		3.4	435.0	438.5
Profit for 2005 – restated				342.6	342.6
Profit for 2005 as previously reported				357.6	357.6
Deferred taxation rate change				(0.1)	(0.1)
IFRS adjustments (note 1)					
Investment in associate				0.2	0.2
Share based payments				(15.1)	(15.1)
Share based payment reserve			15.1		15.1
Shares issued	5.3				5.3
Dividends declared				(50.7)	(50.7)
Restated capital and reserves at 30 September 2005	5.4		18.5	726.9	750.8
Profit for 2006				407.6	407.6
Share based payment reserve			16.5		16.5
Shares issued	8.0				8.0
Shares repurchased		(99.8)			(99.8)
Dividends declared				(190.7)	(190.7)
Capital and reserves at 30 September 2006	13.4	(99.8)	35.0	943.8	892.4
COMPANY					
Capital and reserves at 30 September 2004					
– as previously reported	0.1			437.3	437.4
IFRS adjustments (note 1)			3.4	(4.1)	(0.7)
Restated capital and reserves at 30 September 2004	0.1		3.4	433.2	436.7
Profit for 2005 – restated				342.1	342.1
Profit for 2005 as previously reported				357.3	357.3
Deferred taxation rate change				(0.1)	(0.1)
IFRS adjustments (note 1)					
Share based payments				(15.1)	(15.1)
Share based payment reserve			15.1		15.1
Shares issued	5.3				5.3
Dividends declared				(50.7)	(50.7)
Restated capital and reserves at 30 September 2005	5.4		18.5	724.6	748.5
Profit for 2006				407.4	407.4
Share based payment reserve			16.3		16.3
Shares issued	8.0				8.0
Dividends declared				(190.7)	(190.7)
Capital and reserves at 30 September 2006	13.4		34.8	941.3	989.5

CASH FLOW STATEMENTS

for the year ended 30 September 2006

R million	Notes	GROUP 2006	GROUP 2005*	COMPANY 2006	COMPANY 2005*
CASH FLOWS FROM OPERATING ACTIVITIES		**372.7**	370.5	**337.9**	340.1
Cash generated from operations	25	**734.5**	573.0	**691.9**	531.9
Interest received		**21.4**	5.3	**21.1**	5.1
Interest paid		**(6.1)**	(1.2)	**(4.9)**	(1.1)
Taxation paid	26	**(186.4)**	(155.9)	**(179.5)**	(145.1)
Dividends paid	9	**(190.7)**	(50.7)	**(190.7)**	(50.7)
CASH FLOWS FROM INVESTING ACTIVITIES		**(237.5)**	(61.2)	**(317.3)**	(54.5)
Investment to maintain operations		**(37.3)**	(24.7)	**(37.0)**	(22.7)
– Replacement of property, plant and equipment		**(39.7)**	(29.3)	**(39.2)**	(27.2)
– Proceeds on disposal of property, plant and equipment		**2.4**	4.6	**2.2**	4.5
Investment to expand operations		**(150.1)**	(44.9)	**(130.4)**	(40.2)
Net movement on loans and investments		**(50.1)**	8.4	**(149.9)**	8.4
CASH FLOWS FROM FINANCING ACTIVITIES		**(93.9)**	(2.3)	**6.6**	(1.2)
Proceeds from issue of share capital and premium		**8.0**	5.3	**8.0**	5.3
Shares repurchased		**(99.8)**			
Repayment of long-term borrowings		**(2.1)**	(7.6)	**(1.4)**	(6.5)
NET INCREASE IN CASH AND CASH EQUIVALENTS		**41.3**	307.0	**27.2**	284.4
NET CASH AND CASH EQUIVALENTS/(OVERDRAFTS) AT BEGINNING OF YEAR		**0.2**	(306.8)	**(50.0)**	(334.4)
NET CASH AND CASH EQUIVALENTS/(OVERDRAFTS) AT END OF YEAR		**41.5**	0.2	**(22.8)**	(50.0)
Analysed:					
Bank overdrafts – SPAR		**(27.1)**	(68.5)	**(22.8)**	(50.0)
Bank balances – Guilds		**68.6**	68.7	**–**	–

* Restated for IFRS where applicable.

NOTES TO THE FINANCIAL STATEMENTS

for the year ended 30 September 2006

1. TRANSITION TO INTERNATIONAL FINANCIAL REPORTING STANDARDS ("IFRS")

For the year ended 30 September 2005, the group prepared its financial statements in accordance with South African Statements of Generally Accepted Accounting Practice ("SA GAAP"). In accordance with the JSE Limited ("JSE") Listings Requirements, the group is required to prepare its annual financial statements in accordance with IFRS (effective for financial periods commencing on or after 1 January 2005) for the year ended 30 September 2006. IFRS refers to the application of International Accounting Standards ("IAS") and IFRS.

As the group publishes comparative information for one year, the date of transition to IFRS for the group is 1 October 2004, which represents the start of the earliest period of comparative information presented. The group's opening balance sheet at 1 October 2004, has been restated to reflect all IFRS statements applicable at that date as required by IFRS 1. However, IFRS 1 allows a number of exemptions to this retrospective application principle upon adoption of IFRS.

The group has considered all relevant exceptions and exemptions allowed in IFRS 1, and has treated the pertinent transitional arrangements as follows:

IAS 19 Employee Benefits

The group has elected to recognise all cumulative unrecognised gains and losses at the date of transition.

IAS 16 Property, Plant and Equipment

A first-time adopter may elect to use the fair value of individual property, plant and equipment at transition date as deemed cost. The group has elected not to make use of this optional exemption and has applied IAS 16 Property, Plant and Equipment prospectively.

IAS 21 The Effects of Changes in Foreign Exchange Rates

The group has elected not to set the foreign currency translation reserve of its foreign operations to nil at the date of transition to IFRS.

IFRS 2 Share Based Payments

The group has elected not to apply the provisions of IFRS 2 to its equity-settled share options granted on or before 7 November 2002 or to options granted after this date but which had vested prior to 1 January 2005.

IFRS 3 Business Combinations

The group adopted AC 140 Business Combinations in 2005, which required the accumulated amortisation to be reflected against the cost. This accounting treatment is in line with IFRS 3.

The group has elected not to retrospectively apply the requirements of IFRS 3 for business combinations that occurred prior to 1 October 2004 and consequently no adjustments have been made to historical business combinations.

The material adjustments to group and company shareholders' equity, balance sheet items and income statement items, and the basis thereto, are shown overleaf:

R million		Share capital and premium	Share based payment reserve	Retained earnings	Attributable to ordinary shareholders
STATEMENTS OF CHANGES IN EQUITY					
GROUP					
Capital and reserves at October 2004					
as previously reported		0.1		437.2	437.3
IFRS 2 Share Based payments	Note A		3.4	(3.4)	–
IAS 19 Employee Benefits	Note B			(3.8)	(3.8)
Unrealised losses recognised				(5.4)	(5.4)
Deferred taxation				1.6	1.6
IAS 28 Investment in Associate	Note C			5.0	5.0
Restated capital and reserves at 1 October 2004		0.1	3.4	435.0	438.5
COMPANY					
Capital and reserves at October 2004					
as previously reported		0.1		437.3	437.4
IFRS 2 Share Based Payments	Note A		3.4	(3.4)	–
IAS 19 Employee Benefits	Note B			(3.8)	(3.8)
Unrealised losses recognised				(5.4)	(5.4)
Deferred taxation				1.6	1.6
IAS 28 Investment in Associate	Note C			3.1	3.1
Restated capital and reserves at 1 October 2004		0.1	3.4	433.2	436.7

R million	SA GAAP	ADJUSTMENTS Note A IFRS 2	Note B IAS 19	Note C IAS 28	IFRS
BALANCE SHEETS AT 1 OCTOBER 2005					
GROUP					
Share based payment reserve		18.5			18.5
Employee benefits	40.8		5.4		46.2
Investment in associate				5.2	5.2
Retained earnings	744.0	(18.5)	(3.8)	5.2	726.9
Deferred tax	6.4		1.6		8.0
COMPANY					
Share based payment reserve		18.5			18.5
Employee benefits	40.8		5.4		46.2
Investment in associate				3.1	3.1
Retained earnings	743.8	(18.5)	(3.8)	3.1	724.6
Deferred tax	6.4		1.6		8.0
INCOME STATEMENTS AT 1 OCTOBER 2005					
GROUP					
Administration and information technology expense	(173.1)	(15.1)			(188.2)
Share of associate company's profit				0.2	0.2
Taxation	(157.1)		(0.1)		(157.2)
Total IFRS impact on net profit for the year	357.6	(15.1)	(0.1)	0.2	342.6
COMPANY					
Administration and information technology expense	(169.5)	(15.1)			(184.6)
Taxation	(146.7)		(0.1)		(146.8)
Total IFRS impact		(15.1)	(0.1)		
Effect of transition to IFRS on earnings per share (cents)					
On basic earnings per share	211.6	(8.9)	(0.1)	0.1	202.7
On headline earnings per share	212.7	(8.9)	(0.1)	0.1	203.8
On diluted earnings per share	206.9	(8.7)	(0.1)	0.1	198.2
On diluted headline earnings per share	208.0	(8.7)	(0.1)	0.1	199.3

Note A – IFRS 2 Share Based Payments

The group has granted share options to certain employees under an employee share option scheme. In accordance with IFRS 2, the group has recognised an expense in the income statement, with a corresponding credit to the share based payment reserve, representing the fair value of outstanding employee share options on its equity-settled scheme. The fair value at the date of granting the options is charged to the income statement over the relevant option vesting periods, adjusted to reflect the actual levels of vesting.

Note B – IAS 19 Employee Benefits

In accordance with the provisions of IFRS 1, the group has elected to apply the exemption to recognise all cumulative actuarial gains and losses not previously recognised in the post retirement medical aid provision at the date of transition to IFRS.

Note C – IAS 28 Investment in Associates

Prior to the revisions of IAS 28, this statement provided that where associate companies operate under severe long-term restrictions, which significantly impair their ability to transfer funds to the investor, that such investments are not equity accounted. The revised statement (effective for financial periods commencing on or after 1 January 2005) removes this exemption. Accordingly, The SPAR Group Limited's investment in SPAR Harare (Pvt) Limited, previously impaired to Rnil, has been reinstated and the carrying amount increased to recognise the group's share of the profit of SPAR Harare (Pvt) Limited from the date the group exerted significant influence over that company.

	GROUP		COMPANY	
R million	**2006**	2005*	**2006**	2005*
2. REVENUE				
Turnover	**17 009.6**	13 599.0	**15 720.5**	12 475.7
Other income	**167.0**	138.5	**193.1**	155.7
Advertising and promotional revenues	**165.3**	135.3	**162.9**	132.6
Other receipts	**1.7**	3.2	**1.7**	3.2
Dividends received			**28.5**	19.9
Total revenue	**17 176.6**	13 737.5	**15 913.6**	12 631.4

3. COST OF SALES

Cost of sales represents the net cost of purchases from suppliers, after rebates and incentive allowances received from suppliers.

* Restated for IFRS where applicable.

R million	GROUP 2006	GROUP 2005*	COMPANY 2006	COMPANY 2005*
4. OPERATING PROFIT				
Operating profit is arrived at after taking into account:				
Turnover	**17 009.6**	13 599.0	**15 720.5**	12 475.7
Cost of sales	**(15 581.3)**	(12 399.0)	**(14 386.0)**	(11 352.3)
Gross profit	**1 428.3**	1 200.0	**1 334.5**	1 123.4
Other income	**167.0**	138.5	**193.1**	155.7
Operating expenses	**(992.5)**	(839.0)	**(937.6)**	(790.4)
Warehousing and distribution expenses	**(515.5)**	(443.9)	**(488.4)**	(416.9)
Marketing and selling expenses	**(258.2)**	(206.9)	**(238.3)**	(188.9)
Administration and information technology expenses	**(218.8)**	(188.2)	**(210.9)**	(184.6)
Operating profit	**602.8**	499.5	**590.0**	488.7
Operating expenses include the following:				
Auditor's remuneration:	**2.8**	2.3	**2.4**	2.0
Audit fees	**2.7**	2.2	**2.4**	1.9
Expenses	**0.1**			
Other fees		0.1		0.1
Depreciation:	**39.7**	36.5	**37.1**	34.5
Buildings and leasehold improvements	**5.7**	5.1	**4.9**	4.5
Plant, equipment and vehicles	**34.0**	31.4	**32.2**	30.0
Impairment of property, plant and equipment and retail stores		3.5		3.5
Net foreign exchange losses/(profits)	**0.4**	(0.1)	**0.4**	(0.1)
Operating lease charges:				
Immovable property	**1.5**	3.0	**1.8**	1.8
Lease rentals	**103.5**	86.9	**103.2**	86.2
Sub-lease recoveries	**(102.0)**	(83.9)	**(101.4)**	(84.4)
Plant, equipment and vehicles	**13.4**	5.1	**13.1**	4.9
Profit on disposal of property, plant and equipment	**(1.2)**	(0.9)	**(1.3)**	(0.9)
Post retirement medical aid provision	**3.6**	3.9	**3.6**	3.9
Retirement contributions				
Defined contribution plan expenses	**32.9**	28.5	**30.6**	27.5
Defined benefit plan expenses	**0.7**	0.7	**0.6**	0.6
Share based payments charge	**16.5**	15.1	**16.3**	15.1
Staff costs	**512.7**	436.3	**480.7**	408.5
Technical and consulting fees	**2.2**	2.2	**1.9**	1.6

* Restated for IFRS where applicable.

R million	GROUP 2006	GROUP 2005*	COMPANY 2006	COMPANY 2005*
5. NET INTEREST RECEIVED				
Interest received				
Bank deposits	**15.8**	0.9	**15.7**	0.9
Investments	**2.0**	0.7	**2.0**	0.7
Overdue debtors	**3.6**	3.6	**3.5**	3.4
Other	**0.3**	0.4	**0.2**	0.4
Total interest received	**21.7**	5.6	**21.4**	5.4
Interest paid				
Fixed asset financing and security deposits	**3.4**	5.1	**3.3**	4.9
Bank overdraft	**2.5**	0.1	**1.5**	
Other	**0.2**	0.3	**0.1**	0.3
Total interest paid	**6.1**	5.5	**4.9**	5.2
Net interest received	**15.6**	0.1	**16.5**	0.2
6. TAXATION				
South African normal taxation				
Current taxation – current year	**173.2**	146.5	**162.2**	137.0
– prior year	**0.1**	4.1	**0.1**	3.2
– withholding taxes		0.1		
Deferred taxation – current year	**13.8**	2.9	**12.8**	3.1
– rate change		0.4		0.4
– prior year	**0.3**	(3.1)	**0.3**	(3.2)
Secondary Tax on Companies (STC)	**23.7**	6.3	**23.7**	6.3
Total taxation	**211.1**	157.2	**199.1**	146.8
Reconciliation of effective taxation rate	**%**	%	**%**	%
Standard taxation rate	**29.0**	29.0	**29.0**	29.0
Disallowable expenses/(exempt income)	**1.2**	0.9	**(0.1)**	(0.4)
Prior year under provision	**0.1**	0.2	**0.1**	
Change in taxation rate		0.1		0.1
Secondary Tax on Companies	**3.8**	1.2	**3.9**	1.3
Share of associate company's profit		0.1		
Effective rate of taxation	**34.1**	31.5	**32.9**	30.0

* Restated for IFRS where applicable.

R million	GROUP 2006	GROUP 2005*	COMPANY 2006	COMPANY 2005*
7. EARNINGS PER SHARE				
Earnings per share are calculated using the weighted average number of ordinary shares in issue during the year. In the case of basic earnings per share the weighted average number of shares in issue during the year was 169 447 986 (2005: 169 010 748). In respect of diluted earnings per share the weighted average number of shares was 175 874 772 (2005: 172 822 332).				
The calculation of the basic and diluted earnings per share attributable to ordinary shareholders is based on the following data:				
Earnings				
Earnings for the purpose of basic and diluted earnings per share (profit for the year attributable to ordinary shareholders)	**407.6**	342.6	**407.4**	342.1
Number of shares	**'000**	'000	**'000**	'000
Weighted average number of ordinary shares for the purpose of basic earnings per share	**169 448**	169 011	**169 448**	169 011
Effect of diluted potential ordinary shares:				
Share options	**6 427**	3 811	**6 427**	3 811
Weighted average number of ordinary shares for the purpose of diluted earnings per share	**175 875**	172 822	**175 875**	172 822
8. HEADLINE EARNINGS				
Profit attributable to shareholders	**407.6**	342.6	**407.4**	341.8
Adjusted for:				
(Profit)/loss on sale of property, plant and equipment, net of impairments and net of taxation	**(0.9)**	1.8	**(0.9)**	1.8
Headline earnings	**406.7**	344.4	**406.5**	343.6
Headline earnings per share (cents)				
Basic	**240.0**	203.8		
Diluted	**231.2**	199.3		

* Restated for IFRS where applicable.

R million	GROUP 2006	GROUP 2005*	COMPANY 2006	COMPANY 2005*
9. DIVIDENDS PAID				
2005 Final dividend declared 14 November 2005				
– paid 12 December 2005	**109.2**		**109.2**	
2006 Interim dividend declared 10 May 2006				
– paid 5 June 2006	**81.5**	50.7	**81.5**	50.7
Total dividends paid	**190.7**	50.7	**190.7**	50.7
2005 Final dividend per share declared 14 November 2005				
– paid 12 December 2005 (cents)	**64.5**		**64.5**	
2006 Interim dividend per share declared 10 May 2006				
– paid 5 June 2006 (cents)	**48.0**	30.0	**48.0**	30.0
Total dividends per share (cents)	**112.5**	30.0	**112.5**	30.0

The final dividend for the year ended 30 September 2006 of 75 cents per share declared on 14 November 2006 and payable on 11 December 2006 has not been accrued.

* Restated for IFRS where applicable.

R million	Freehold land and buildings	Leasehold buildings	Plant, equipment and vehicles	Total

10. PROPERTY, PLANT AND EQUIPMENT

GROUP				
Cost at 30 September 2005	283.4	2.0	359.9	645.3
Accumulated depreciation	(39.3)	(0.3)	(235.5)	(275.1)
Carrying value at 30 September 2005	**244.1**	**1.7**	**124.4**	**370.2**
Additions	**75.4**		**114.4**	**189.8**
Disposals at net book value			**(1.2)**	**(1.2)**
Depreciation	**(5.5)**	**(0.2)**	**(34.0)**	**(39.7)**
Reclassification	**0.2**	**(0.2)**		
Carrying value at 30 September 2006	**314.2**	**1.3**	**203.6**	**519.1**
Analysed as follows:				
Cost	**358.8**	**2.0**	**464.6**	**825.4**
Accumulated depreciation	**(44.6)**	**(0.7)**	**(261.0)**	**(306.3)**
COMPANY				
Cost at 30 September 2005	249.0	1.4	342.1	592.5
Accumulated depreciation	(34.0)	(0.3)	(225.6)	(259.9)
Carrying value at 30 September 2005	**215.0**	**1.1**	**116.5**	**332.6**
Additions	**60.2**		**109.4**	**169.6**
Disposals at net book value			**(0.9)**	**(0.9)**
Depreciation	**(4.7)**	**(0.2)**	**(32.2)**	**(37.1)**
Reclassification	**0.2**	**(0.2)**		
Carrying value at 30 September 2006	**270.7**	**0.7**	**192.8**	**464.2**
Analysed as follows:				
Cost	**309.2**	**1.4**	**441.9**	**752.5**
Accumulated depreciation	**(38.5)**	**(0.7)**	**(249.1)**	**(288.3)**

Details of land and buildings are recorded in a register which is available for inspection at the registered office of the company. The directors' valuation of freehold land and buildings at 30 September 2006 was R516 million, based on a yield of 14% (2005: R366 million based on a yield of 18%).

Property with a book value of R43 755 076 (2005: R40 058 715) stands security for long-term borrowings of R37 000 000 (2005: R38 349 811). Refer note 23.

Certain assets are encumbered under instalment sale agreements in favour of Stannic Bank. The carrying value of these assets amounts to R953 694 (2005: R1 099 649). Refer note 23.

As required by IAS 16, the group has reviewed the useful lives and residual values of property, plant and equipment. The review did not highlight a requirement to adjust the residual values and useful lives in the current year.

R million	GROUP 2006	GROUP 2005*	COMPANY 2006	COMPANY 2005*

11. GOODWILL

Cost				
Opening balance	**245.6**	258.9		2.3
Elimination of accumulated amortisation		(12.1)		(0.4)
Acquisition of subsidiaries		0.7		
Disposal of subsidiaries		(1.9)		(1.9)
Closing balance	**245.6**	245.6	**–**	–

During the year the group reviewed goodwill for possible impairment. Goodwill is attributable to Nelspruit Wholesalers (Pty) Limited. The "value in use" discounted cash flow model was applied in assessing the recoverable amount of goodwill.

The following key assumptions were applied in determining the value in use of goodwill:

Discount rate			**10.5%**	11.2%
Sales growth rate			**5 – 6%**	5 – 6%
Terminal value growth rate			**3%**	3%

The value in use of cash flow projections, which cover a period of 10 years, are based on the most recent budgets and forecasts approved by management and extrapolations of cash flows which incorporate growth rates consistent with the average long-term growth trends of the market.

At 30 September 2006 the carrying value of goodwill was not considered to be impaired.

The disposal of goodwill in the prior year related to the Gordon Road SPAR retail store, which was sold effective 31 January 2005.

* Restated for IFRS where applicable.

R million	GROUP 2006	GROUP 2005*	COMPANY 2006	COMPANY 2005*
12. OPERATING LEASE RECEIVABLES / (PAYABLES)				
Operating lease receivables	**22.0**	18.7	**22.0**	18.7
Current portion of operating lease receivables	**(6.3)**	(6.2)	**(6.3)**	(6.2)
Long-term operating lease receivables	**15.7**	12.5	**15.7**	12.5
Operating lease payables	**22.0**	18.7	**22.0**	18.7
Current portion of operating lease payables	**(6.2)**	(5.9)	**(6.2)**	(5.9)
Long-term operating lease payables	**15.8**	12.8	**15.8**	12.8

The group has entered into various operating lease agreements in respect of premises with landlords and has leased these to various retailers. These leases are contracted for periods of between 10 and 15 years with renewal options. Rentals comprise minimum monthly payments and additional payments based on turnover levels.

Operating leases with fixed escalation charges are recognised in the income statement on the straight-line basis, which is consistent with the prior year. In the current year, the long-term portion of lease receivables/payables has been reallocated to non-current assets/liabilities.

* Restated for IFRS where applicable.

R million	GROUP 2006	GROUP 2005*	COMPANY 2006	COMPANY 2005*

13. INVESTMENT IN ASSOCIATE

SPAR Harare (Pvt) Limited				
Shares at cost	**3.1**	3.1	**3.1**	3.1
Share of post acquisition profit, net of dividend received	**2.4**	2.1		
Net investment in associate	**5.5**	5.2	**3.1**	3.1

The group has a 35% shareholding in SPAR Harare (Pvt) Limited. In prior years, the investment was impaired to Rnil as the entity operated under severe long-term restrictions, preventing the transfer of funds from that country. The group therefore only accounted for cash dividends when received. As IAS 28 Investments in Associates, no longer permits this exemption, SPAR Harare (Pvt) Limited has been equity accounted in 2006 with comparatives being restated. The cost of the investment at a company level has been reinstated accordingly.

SPAR Harare (Pvt) Limited has a 30 June year-end. This was the financial reporting date established when the company was incorporated. For the purposes of applying the equity method of accounting, the financial statements of SPAR Harare (Pvt) Limited for the year ended 30 June 2006 have been used. There have been no material unusual transactions from 30 June 2006 to 30 September 2006.

Hyperinflationary accounting adjustments have been applied to the 2006 and 2005 results of the Zimbabwean associate by applying an index thereto. The current cost method has been applied.

	2006	2005*
Rates used are as follows:		
30 June purchase price index	**158 709**	12 354
Rand/Zimbabwe dollar exchange rate	**68 775**	4 167

Summarised hyperinflationary adjusted financial statements of SPAR Harare (Pvt) Limited as at 30 June 2006 are as follows:

	R million	R million
Total assets	**21.8**	37.7
Total liabilities	**9.7**	25.4
Capital reserves	**12.1**	12.3
Revenue	**85.1**	173.6
Net profit for the year attributable to shareholders	**0.9**	0.5

* Restated for IFRS where applicable.

R million	GROUP 2006	GROUP 2005*	COMPANY 2006	COMPANY 2005*
14. LOANS				
Tiger Brands Limited share purchase trust	**0.2**	0.2	**0.2**	0.2
Retailer and development loans	**50.8**	11.6	**50.8**	11.6
Total loans	**51.0**	11.8	**51.0**	11.8
Retailer and development loans are both secured and unsecured, bear interest at various rates and have set repayment terms.				
15. DEFERRED TAXATION (LIABILITY) / ASSET				
Deferred taxation analysed by major category:				
Accelerated capital allowances	**(16.4)**	(8.2)	**(15.8)**	(8.0)
Provisions, claims and prepayments	**10.3**	16.2	**10.7**	16.0
Closing balance	**(6.1)**	8.0	**(5.1)**	8.0
Reconciliation of deferred taxation:				
Opening balance – restated	**8.0**	8.2	**8.0**	8.3
Income statement effect	**(14.1)**	0.2	**(13.1)**	0.1
Change in taxation rate		(0.4)		(0.4)
Closing balance	**(6.1)**	8.0	**(5.1)**	8.0
Comprising:				
Deferred taxation assets		8.0		8.0
Deferred taxation liabilities	**(6.1)**		**(5.1)**	
16. INVENTORIES				
Merchandise	**458.2**	392.8	**429.3**	366.6
Less provisions for obsolescence	**(8.9)**	(7.8)	**(8.3)**	(7.3)
Total inventories	**449.3**	385.0	**421.0**	359.3
Total shrinkage and damages written off during the year	**36.6**	34.2	**34.6**	30.7
17. SHORT-TERM LOAN				
Retailer and development loans	**16.7**	5.8	**16.7**	5.8
Loan to The SPAR Group Limited Employee Share Trust (2004)			**99.6**	
	16.7	5.8	**116.3**	5.8

The loan to The SPAR Group Limited Employee Share Trust (2004) is unsecured, bears no interest and has no set repayment terms. The company advanced money to the Trust to enable it to finance the repurchase of the company's shares. Refer note 20.

Retailer and development loans are both secured and unsecured, bear interest at various rates and have set repayment terms.

* Restated for IFRS where applicable.

18. CASH BALANCES / OVERDRAFTS

The group separately discloses bank balances between SPAR bank balances and Guild bank balances, with the latter classification identifying retailer funds held in trust and other cash deposits attributable to The SPAR Guild of Southern Africa and The Build it Guild of Southern Africa.

	GROUP		COMPANY	
R million	**2006**	2005*	**2006**	2005*
19. SHARE CAPITAL AND PREMIUM				
19.1 **Authorised**				
250 000 000 (2005: 250 000 000) ordinary shares of 0.06 cents (2005: 0.06 cents) each	**0.2**	0.2	**0.2**	0.2
Issued				
169 935 935 (2005: 169 260 035) ordinary shares of 0.06 cents (2005: 0.06 cents) each	**0.1**	0.1	**0.1**	0.1
Share premium account				
Balance at beginning of year	**5.3**		**5.3**	
Shares issued during the year	**8.0**	5.3	**8.0**	5.3
Total share capital and premium	**13.4**	5.4	**13.4**	5.4

All the authorised and issued shares are of the same class and rank *pari passu* in every respect. There are no conversion or exchange rights. Any variation of rights required for these shares will require a special resolution from the shareholders in a general meeting in accordance with the Articles of Association.

Pursuant to the exercising of options, an additional 675 900 ordinary shares (2005: 496 365 ordinary shares) were issued, thereby increasing the issued share capital to R101 961 (2005: R101 556) consisting of 169 935 935 shares (2005: 169 260 035 shares).

* Restated for IFRS where applicable.

19. SHARE CAPITAL AND PREMIUM (continued)

19.2 Details of share options granted in terms of the company's share option scheme are as follows:

Option strike price per share	Option exercisable until	2006 Number of shares under option	2005 Number of shares under option
R9.73251	13 November 2005		19 700
R5.02922	9 March 2008	**30 900**	40 900
R9.33601	19 May 2008	**35 450**	36 450
R6.43587	11 September 2008	**33 500**	40 200
R6.81538	22 September 2008	**246 700**	283 700
R7.82552	2 October 2008	**7 500**	7 500
R9.80803	24 June 2009	**150 800**	175 500
R7.96901	8 July 2009	**31 367**	36 467
R10.80873	8 November 2009	**419 600**	448 900
R10.88426	1 December 2009	**1 700**	1 700
R10.28006	18 April 2010	**3 400**	3 400
R9.63810	13 October 2010	**5 000**	5 000
R9.94020	14 November 2010	**362 366**	438 936
R9.61922	1 April 2011	**3 400**	3 400
R10.47902	4 June 2011	**6 666**	6 666
R11.19650	21 June 2011	**5 000**	5 000
R11.55525	25 July 2011	**6 700**	8 500
R11.61189	1 September 2011	**6 700**	10 000
R10.76224	29 January 2012	**1 379 370**	1 655 900
R11.93287	4 April 2012	**6 400**	11 000
R13.05818	3 February 2013	**1 225 900**	1 336 000
R13.05818	31 March 2013	**288 900**	332 000
R13.17147	8 August 2013	**11 700**	15 000
R15.10867	29 January 2014	**1 291 000**	1 337 000
R15.51273	28 February 2014	**5 000**	5 000
R21.04	12 December 2014	**6 498 300**	6 858 000
R29.00	13 November 2015	**2 180 400**	
R30.36	10 January 2016	**190 000**	
		14 433 719	13 121 819
Unissued options under the control of the directors until the next annual general meeting		**8 995 632**	11 431 132

R million	GROUP 2006*	2005*

20. TREASURY SHARES

During the year The SPAR Group Limited Employee Share Trust (2004) purchased 2 740 725 shares in the company at an average purchase price of R36.30 per share. The trust holds these shares for purposes of satisfying option holder requirements as and when option holders exercise their share option rights.

	2006*	2005*
Opening balance		
Shares repurchased	**99.8**	
Closing balance	**99.8**	–

21. SHARE BASED PAYMENTS

The company has in place a share option scheme which is operated through The SPAR Group Limited Employee Share Trust (2004) ("the Trust"). Options issued by the Trust vest over a period of five years from grant date and expire 10 years from grant date. One third of the options granted vest after three years, with a further third vesting on the expiry of four years and five years respectively. Options are forfeited if the employee leaves the group before vesting date.

Share options outstanding at year-end are as follows:

	Number of options outstanding	
Opening balance	**13 121 819**	6 855 018
New options granted ◆	**2 435 500**	7 028 400
Options taken up ◆◆	**(675 900)**	(496 365)
Options forfeited	**(447 700)**	(265 234)
Closing balance	**14 433 719**	13 121 819
◆ Weighted average price of options granted during the year	**R29.11**	R21.04
◆◆ Weighted average grant price of options taken up during the year	**R11.81**	R10.64
◆◆ Weighted average selling price of options exercised during the year	**R34.76**	R23.74

Options were granted on 14 November 2005 and 11 January 2006 during the current financial year. The estimated fair values of the options granted on those dates are R23 428 050 and R2 295 200 respectively. In 2005, options were granted on 13 December 2004, with the estimated fair values of the options granted on that date amounting to R46 373 500. The fair values were calculated using a stochastic model based on the standard binomial options pricing model. The model takes into account early exercise opportunities and expected employee exercise behaviour.

The income statement charge has taken into account non-market conditions such as employee turnover.

* Restated for IFRS where applicable.

21. SHARE BASED PAYMENTS (continued)

The valuation of options granted was performed by independent actuaries utilising the following principal assumptions:

Grant date	Vesting date	Expected option lifetime	ASSUMPTION Rolling volatility %	Dividend yield %	Risk free rate %
2005					
Beneficial options in terms of the unbundling from Tiger Brands Limited					
03/02/2003	03/02/2006	4	28.6	4.4	10.22
03/02/2003	03/02/2007	5	34.2	4.4	10.23
03/02/2003	03/02/2008	6	33.2	4.4	10.16
29/01/2004	29/01/2007	4	24.6	3.5	9.17
29/01/2004	29/01/2008	5	26.9	3.5	9.24
29/01/2004	29/01/2009	6	32.9	3.5	9.27
Options granted by SPAR					
13/12/2004	13/12/2007	4	28.0	3.7	7.85
13/12/2004	13/12/2008	5	29.2	3.7	7.95
13/12/2004	13/12/2009	6	31.2	3.7	8.07
2006					
Options granted by SPAR					
14/11/2005	14/11/2008	4	23.90	2.25	7.61
14/11/2005	14/01/2009	5	26.55	2.25	7.66
14/11/2005	14/11/2010	6	27.78	2.25	7.72
11/01/2006	11/01/2009	4	24.92	2.45	7.05
11/01/2006	11/01/2010	5	27.95	2.45	7.10
11/01/2006	11/01/2011	6	29.94	2.45	7.15

Due to insufficient historical data for The SPAR Group Limited's shares, an appropriate share was used as a proxy to calculate the vesting period's volatility at each grant date.

R million	GROUP 2006	GROUP 2005*	COMPANY 2006	COMPANY 2005*
22. POST RETIREMENT MEDICAL AID PROVISION				
Opening balance – actuarial valuation	**45.2**	42.2	**45.2**	42.2
Recognised as an expense during the current year:	**5.4**	6.3	**5.4**	6.3
Interest cost	**3.8**	4.4	**3.8**	4.4
Current service cost	**1.6**	1.9	**1.6**	1.9
Employer benefit payments	**(1.7)**	(1.4)	**(1.7)**	(1.4)
Actuarial gains		(1.9)		(1.9)
Actuarial valuation at end of the year	**48.9**	45.2	**48.9**	45.2
Unrecognised actuarial gain	**0.9**	1.0	**0.9**	1.0
Closing balance	**49.8**	46.2	**49.8**	46.2
The principal actuarial assumptions applied in the determination of fair values include:				
Discount rate	**8.5%**	8.5%	**8.5%**	8.5%
Expected rates of salary increases	**6.0%**	6.0%	**6.0%**	6.0%
Health care cost inflation	**5.5%**	5.5%	**5.5%**	5.5%
Average retirement age	**63/65**	63/65	**63/63**	63/65

The obligation of the company to pay medical aid contributions after retirement is not part of the conditions of employment for employees engaged after 1 March 1997. However, there are a number of pensioners and current employees who remain entitled to this benefit. The company has continued to adopt the corridor method of recognising actuarial gains and losses after the transition provision of IFRS 1 has been applied (refer note 1). The last actuarial valuation was performed in September 2005 and the next valuation is expected to be performed in September 2008.

In accordance with the provisions of IFRS 1, the group has elected to apply the exemption to recognise all cumulative actuarial gains and losses not previously recognised at the date of transition to IFRS.

* Restated for IFRS where applicable.

R million	GROUP 2006	GROUP 2005*	COMPANY 2006	COMPANY 2005*
23. LONG-TERM BORROWINGS				
Secured borrowings	**38.0**	40.1	**37.0**	38.4
Less current portion	**(37.6)**	(39.1)	**(37.0)**	(38.4)
Total long-term borrowings	**0.4**	1.0	**–**	–

Long-term borrowings are secured over movable assets with a net book value amounting to R953 694 (2005: R1 099 649) and property with a book value of R43 755 076 (2005: R40 058 715) (refer note 10). The movable asset borrowings bear interest linked to the prime bank overdraft rate and are repayable in monthly instalments of R67 591 (2005: R87 296) inclusive of interest. The last instalment falls due in October 2008.

The company has unlimited borrowing powers in terms of its Articles of Association.

R million	GROUP 2006	GROUP 2005*	COMPANY 2006	COMPANY 2005*
24. PROVISIONS				
Volume discounts	**61.6**	47.7	**56.9**	43.8
Supplier claims	**2.8**	2.3	**1.2**	1.6
Total provisions	**64.4**	50.0	**58.1**	45.4
Balance at the beginning of the year	**50.0**	41.1	**45.4**	37.6
Provisions raised	**97.9**	75.2	**88.6**	67.6
Provisions utilised	**(83.5)**	(66.3)	**(75.9)**	(59.8)
Balance at the end of the year	**64.4**	50.0	**58.1**	45.4

Both volume discount and supplier claim provisions represent management's best estimate of the group's liability. The volume discount provision is based on past and expected purchase targets achieved by retailers. The supplier claims provision represents claims against suppliers which are considered doubtful based on the age of the claims and specific circumstances.

* Restated for IFRS where applicable.

R million	GROUP 2006	GROUP 2005*	COMPANY 2006	COMPANY 2005*
25. CASH GENERATED FROM OPERATIONS				
Profit from operations	**602.8**	499.5	**590.0**	488.7
Adjusted for:				
Depreciation	**39.7**	36.5	**37.1**	34.5
Profit on disposal of property, plant and equipment	**(1.2)**	(0.9)	**(1.3)**	(0.9)
Post retirement medical aid provision	**3.6**	3.9	**3.6**	3.9
Impairment of property, plant and equipment		3.5		3.5
Translation adjustment	**3.7**	(0.6)		
Share based payments charge	**16.5**	15.1	**16.5**	15.1
Cash generated from operations before:	**665.1**	557.0	**645.9**	544.8
Net working capital changes	**69.4**	16.0	**46.0**	(12.9)
Increase in inventories	**(64.3)**	(49.6)	**(61.7)**	(52.0)
Increase in trade and other receivables	**(570.5)**	(307.2)	**(567.2)**	(275.8)
Increase in trade payables and provisions	**704.2**	372.8	**674.9**	314.9
Cash generated from operations	**734.5**	573.0	**691.9**	531.9
26. TAXATION PAID				
Balance unpaid at the beginning of the year	**6.3**	5.2	**6.8**	5.4
Income statement charge	**197.0**	157.0	**186.0**	146.5
Balance unpaid at the end of the year	**(16.9)**	(6.3)	**(13.3)**	(6.8)
Total taxation paid	**186.4**	155.9	**179.5**	145.1
27. CONTINGENT LIABILITIES				
The company has guaranteed the finance obligations of certain SPAR retailer members to the amount of:	**164.8**	179.3	**148.8**	175.6
The company has guaranteed the finance obligations of Nelspruit Wholesalers (Proprietary) Limited to its bankers. This guarantee commenced 21 September 2004 and is for an indefinite period.			**13.7**	20.8

* Restated for IFRS where applicable.

R million	GROUP 2006	GROUP 2005*	COMPANY 2006	COMPANY 2005*
28. COMMITMENTS				
28.1 **Operating lease commitments**				
Future minimum lease payments under non-cancellable operating leases are as follows:				
Land and buildings				
Not later than one year	**156.3**	129.2	**156.3**	129.0
Later than one year but not later than five years	**622.9**	516.1	**622.9**	516.1
Later than five years	**516.4**	436.7	**516.4**	436.7
Total land and buildings operating lease commitments	**1 295.6**	1 082.0	**1 295.6**	1 081.8
Other				
Not later than one year	**0.9**	1.0	**0.8**	1.0
Later than one year but not later than five years	**1.1**	1.2	**0.7**	1.2
Total other operating lease commitments	**2.0**	2.2	**1.5**	2.2
28.2 **Operating lease receivable**				
The future minimum sublease recoveries under non-cancellable property leases are as follows:				
Not later than one year	**(151.6)**	(125.1)	**(151.6)**	(125.1)
Later than one year but not later than five years	**(609.5)**	(502.7)	**(609.5)**	(502.7)
Later than five years	**(516.5)**	(433.7)	**(516.5)**	(433.7)
Total sublease recoveries	**(1 277.6)**	(1 061.5)	**(1 277.6)**	(1 061.5)
28.3 **Capital commitments**				
Contracted	**95.0**	48.5	**93.1**	46.8
Approved but not contracted	**206.7**	25.9	**203.7**	25.9
Total capital commitments	**301.7**	74.4	**296.8**	72.7
Capital commitments will be financed from group resources.				

* Restated for IFRS where applicable.

R'000	Salary	Performance related bonus[1]	Retirement funding contributions	Travel expense allowance	Other benefits[2]	Total

29. DIRECTORS' REMUNERATION AND INTERESTS REPORT

29.1 Executive directors

Emoluments 2006	Salary	Performance related bonus[1]	Retirement funding contributions	Travel expense allowance	Other benefits[2]	Total
PK Hughes	**1 876**	**1 034**	**375**	**182**	**37**	**3 504**
RW Coe	**1 175**	**645**	**154**	**148**	**38**	**2 160**
	3 051	**1 679**	**529**	**330**	**75**	**5 664**
Emoluments 2005						
PK Hughes	1 769	440	418	182	108	2 917
RW Coe	1 105	279	142	137	38	1 701
	2 874	719	560	319	146	4 618

(1) Performance related bonuses paid during the year relate to prior year results.
(2) Other benefits include medical aid contributions (2005 includes a long-service award).

29.2 Non-executive directors

	2006	2005
Fees for services as directors (R'000)		
MJ Hankinson (chairman) [1,2]	**480**	400
DB Gibbon [1]	**172**	125
RJ Hutchison [2]	**137**	85
MP Madi	**112**	90
HK Mehta [1,2]	**159**	100
P Mnganga	**84**	
G Moloi		78
Total fees	**1 144**	878

(1) Member of Audit and Risk Committee
(2) Member of Remuneration and Nominations Committee

29.3 Directors' interests in the share capital of the company

	2006	2005
Non-executive director HK Mehta – beneficially held	**4 000**	2 000

As at the date of this report the directors' interests in the share capital of the company remained unchanged.

29.4 Declaration of disclosure

Other than that disclosed above and in note 30, no consideration was paid to, or by any third party, or by the company itself, in respect of the services of the company's directors, as directors of the company, during the year ended 30 September 2006.

30. DIRECTORS' SHARE OPTION SCHEME INTERESTS

Options held over shares in The SPAR Group Limited

	Date of option issue	Option price Rand	Number of options held 2006	2005
PK Hughes	24/06/1999	09.80803	**12 000**	12 000
	08/11/1999	10.80873	**37 300**	37 300
	14/11/2000	09.94020	**20 000**	20 000
	29/01/2002	10.76224	**53 000**	53 000
	03/02/2003	13.05818	**35 000**	35 000
	29/01/2004	15.10867	**37 000**	37 000
	13/12/2004	21.04000	**66 000**	66 000
	11/01/2006	30.36000	**111 500**	
			371 800	260 300
RW Coe	22/09/1998	06.81538	**13 300**	13 300
	24/06/1999	09.80803	**8 000**	8 000
	08/11/1999	10.80873	**23 000**	23 000
	14/11/2000	09.94020	**5 000**	5 000
	29/01/2002	10.76224	**17 000**	17 000
	03/02/2003	13.05818	**23 000**	23 000
	29/01/2004	15.10867	**14 000**	14 000
	13/12/2004	21.04000	**51 000**	51 000
	11/01/2006	30.36000	**80 000**	
			234 300	154 300

Non-executive directors have no interests in the share option scheme.

The option scheme provides the right to the option holder to purchase shares in the company at the option price. One third of the options are exercisable per year after each of the third, fourth and fifth years from date of issue. Option holders have ten years from date of issue to exercise their option rights.

31. RETIREMENT BENEFIT FUNDS

The company contributes towards retirement benefits for substantially all permanent employees who, depending on preference, are members of either the group's defined contribution pension fund, a defined contribution provident fund or a defined benefit fund.

The group has established three defined contribution funds and one defined benefit fund, The SPAR Group Limited Pension Fund, all of which are governed by the Pension Funds Act, 1956. The funds are managed by appointed administrators and investment managers, and their assets remain independent of the company.

In terms of their rules, the defined contribution funds have annual financial reviews, which are performed by the funds' consulting actuaries. At the date of their last reviews the funds were judged to be in a financially sound position. Contributions of R32.9 million (2005: R28.5 million) and R30.6 million (2005: R27.5 million) were expensed for the group and company respectively during the year. Contributions to fund obligations for the payment of retirement benefits are charged against earnings when due.

On 31 December 2004, 24 members were transferred into The SPAR Group Limited Pension Fund from the Tiger Brands Defined Benefit Pension Fund. The SPAR Group Limited Pension Fund was valued as at 1 March 2005, using the projected unit credit method, and the fund was found to be in a sound financial position. At that date the actuarial fair value of the plan assets (R9.4 million) over plan liabilities (R8.6 million) of the defined benefit fund amounted to R749 000. The surplus will not be recognised until the finalisation of the surplus apportionment exercise as required by the Pension Funds Second Amendment Act 2001.

The principal actuarial assumptions applied in the determination of fair values include:

Pre-retirement discount rate	9.95% p.a. net of retirement funds tax
Inflation	5.04% p.a.
Salary escalation	7.1% p.a.
Post retirement discount rate	5% p.a.
Post retirement mortality assumption	1% p.a.
Marriage rates	90% of fund membership is married
Spouse age difference	Husbands are four years older than wives

The next actuarial valuation of this fund will take place on 1 March 2008. This fund is closed to further membership. Contributions of R0.7 million (2005: R0.7 million) and R0.6 million (2005: R0.6 million) were expensed for the group and company respectively during the year.

32. FINANCIAL RISK MANAGEMENT

The company's and group's financial instruments consist primarily of cash balances and overdraft funding from the banks, trade payables, loans and trade receivables. The book value of financial instruments approximates fair value.

In the normal course of its operations the group is *inter alia* exposed to credit, interest and liquidity risk. Executive management meets on a regular basis to analyse these risks and to re-evaluate financial management strategies. The group does not speculate in or engage in the trading of financial instruments.

Credit risk

Potential areas of credit risk consist of trade receivables, short-term cash investments and loans to retailers. An appropriate level of provision is maintained for trade receivables which are considered doubtful. The key management assumptions in determining the doubtful debts provision include: where there is a greater than 50% probability that the debt will not be recovered, factors such as the debtor being handed over, long outstanding overdue accounts with no repayment plans and other material factors affecting the recovery of the debt are taken into account. Specific provisions are substantiated by specific debtors and their related financial circumstances. As trade receivables comprise a relatively narrow client base, the group has sought to minimise the credit risk exposure through employing appropriate credit risk assessments and investigations in respect of all new applications. In addition, it is a prerequisite for appropriate forms of security to be obtained from retailers. Ongoing credit evaluations are performed including regular reviews of security cover provided.

The group grants loans to new retailers to assist them with the conversion to SPAR and to existing members for the purposes of upgrading or revamping their stores. Appropriate credit evaluations are performed in respect of all applications and adequate security is obtained. Certain loans are discounted with approved financial institutions under standard conditions with recourse block discounting agreements. However, the majority of loans are made out of the company's cash resources (refer note 14). The loans which have been discounted with the financial institutions have been disclosed as contingent liabilities (refer note 27). The group has guaranteed certain obligations which has resulted in the group retaining the credit risk of these obligations. The fair value of this credit risk has been provided for where appropriate.

The directors are of the opinion that the credit risk in respect of short-term cash investments is low as funds are invested only with acceptable financial institutions of high credit standing and within specific guidelines laid down by the group's board of directors.

Interest rate risk

The group is exposed to interest rate risk on its cash deposits and loan liabilities which can impact on the cash flows of these instruments. The exposure to interest rate risk is managed through the group's cash management system which enables the group to maximise returns while minimising risk.

Liquidity risk

The group has limited risk of illiquidity as it has limited borrowings. The group has unlimited borrowing powers in terms of its Articles of Association. Banking and loan facilities are reviewed annually and are subject to floating interest rates.

Foreign exchange contracts

The risk management of foreign currency transactions is controlled centrally to ensure that any foreign currency transactions are fully covered by forward exchange contracts. The group is fully covered as at 30 September 2006. Foreign exchange contracts in place as at 30 September 2006 are:

Imports	Foreign amount	Contracted amount R's
US dollar	816 684	5 905 531

Fair values

The carrying amount of the financial assets and liabilities reported in the balance sheet approximates fair value at 30 September 2006.

33. RELATED PARTY TRANSACTIONS

Related party relationships exist between the company, its subsidiaries, key personnel within the group and its shareholders. These transactions occurred under terms and conditions no more favourable than transactions concluded with independent third parties, unless otherwise stated below:

33.1 Company and subsidiaries

During the year, the following related party transactions occurred:

- SPAR PE Property (Pty) Limited is a property-owning company. This property is rented by The SPAR Group Limited. During the year rentals of R8 005 743 (2005: R7 050 000) were incurred by the company to SPAR PE Property (Pty) Limited. Dividends of R4 930 565 (2005: R4 293 812) were paid by SPAR PE Property (Pty) Limited to The SPAR Group Limited. The intercompany liability with The SPAR Group Limited as at 30 September 2006 amounted to R32 063 588 (2005: R17 603 017).

- SPAR Namibia (Pty) Limited and SPAR Group Botswana (Pty) Limited have accounting services provided to them by The SPAR Group Limited. During the year dividends of R300 000 (2005: R431 000) and R735 865 (2005: R217 747) were paid to The SPAR Group Limited by SPAR Namibia (Pty) Ltd and SPAR Group Botswana (Pty) Ltd respectively. The intercompany liability with The SPAR Group Limited as at 30 September 2006 amounted to R7 043 204 (2005: R4 676 336) and R960 000 (2005: Rnil) for SPAR Namibia (Pty) Limited and SPAR Botswana (Pty) Limited respectively.

- Nelspruit Wholesalers (Pty) Limited warehouses and distributes to SPAR retailers in the Lowveld region. During the year dividends of R22 520 415 (2005: R15 000 000), rent of R6 382 000 (2005: R6 534 000) and a computer support fee charge of R735 000 (2005: R700 000) were paid to The SPAR Group Limited by Nelspruit Wholesalers (Pty) Limited. The intercompany liability with The SPAR Group Limited as at 30 September 2006 amounted to R11 000 (2005: R37 690).

- The SPAR Group Limited has guaranteed the finance obligations of Nelspruit Wholesalers (Pty) Limited to its bankers. Refer note 27.

- SPAR South Africa (Pty) Limited, Savemor Products (Pty) Limited and SPAR Academy of Learning (Pty) Limited, are all dormant companies.

- The SPAR Guild of Southern Africa and The Build it Guild of Southern Africa are non-profitmaking companies set up to co-ordinate and develop SPAR in Southern Africa. The members of the Guild consist of SPAR Retailers (who are independent store owners) and SPAR Distribution Centres. The members pay subscriptions to the Guild, which uses these monies to advertise and promote SPAR.

  During the year subscriptions of R2 395 008 (2005: R2 223 360) were paid to The SPAR Guild of Southern Africa and R12 942 966 (2005: R5 779 252) paid to The Build it Guild of Southern Africa by The SPAR Group Limited. The intercompany liability with The SPAR Group Limited as at 30 September 2006 amounted to R2 147 000 (2005: R999 149) and R696 708 (2005: R1 011 556) for The SPAR Guild and The SPAR Build it Guild respectively.

- The SPAR Group Limited Employee Share Trust (2004) purchased shares in the company for the purpose of satisfying option holder requirements. As at 30 September 2006, R99 838 350 was loaned to the trust for the purposes of purchasing these shares. Refer note 17 and 20.

No interest is charged on the intercompany loan balances.

33. RELATED PARTY TRANSACTIONS (continued)

33.2 Investment in associate

Refer to note 13 where details of the investment in the associate has been disclosed.

33.3 Shareholders

Details of major shareholders of the company appear on page 86.

33.4 Key management personnel

Key management personnel are directors and those executives having authority and responsibility for planning, directing and controlling the activities of the group. No key management had a material interest in any contract with any group company during the year under review. Details of directors' emoluments and shareholding in the company are disclosed in note 29 and 30 as well as in the Directors' statutory report.

Key management personnel remuneration comprises:

R million	**2006**	2005
Directors' fees	**1.1**	0.9
Remuneration for management services	**17.6**	14.4
Retirement contributions	**2.0**	1.7
Medical aid contributions	**0.5**	0.4
Performance bonus	**6.7**	4.0
Fringe and other benefits	**0.4**	0.1
Expense relating to share options granted	**0.5**	
Total	**28.8**	21.5

34. SEGMENTAL REPORTING

The group operates its business from six distribution centres situated throughout Southern Africa. The distribution centres individually supply goods and services of a similar nature to the group's voluntary trading members. The directors are of the opinion that the operations of the individual distribution centres are substantially similar to one another and that the risks and returns of these distribution centres are likewise similar. As a consequence thereof, the business of the group is considered to be a single geographic segment.

	Issued share capital 2006 Rand	2005 Rand	Effective % holding 2006	2005	Cost of investment 2006 R million	2005 R million
35. INVESTMENT IN SUBSIDIARIES						
Subsidiary*						
SPAR South Africa (Pty) Limited (2)	**10 000**	10 000	**100**	100		
SPAR Namibia (Pty) Limited** (1)	**100**	100	**100**	100		
The SPAR Group (Botswana) (Pty) Limited** (1)	**136**	136	**100**	100		
SPAR PE Property (Pty) Limited (3)	**11 467 875**	11 467 875	**100**	100	**2.3**	2.3
Savemor Products (Pty) Limited (2)	**1**	1	**100**	100		
SPAR Academy of Learning (Pty) Limited (2)	**100**	100	**100**	100		
Nelspruit Wholesalers (Pty) Limited (1)	**109**	109	**100**	100	**265.1**	265.1
The SPAR Guild of Southern Africa*** (1)						
The Build it Guild of Southern Africa***(1)						
Total					**267.4**	267.4
Directors' valuation					**267.4**	267.4

* All companies have a 30 September year-end.

** All companies are incorporated in the Republic of South Africa unless otherwise indicated with an asterisk.

*** Association incorporated under section 21 of the Companies Act over which the company exercises control.

(1) Operating companies

(2) Dormant

(3) Property-owning company

SHARE OWNERSHIP ANALYSIS

	Number of shareholders	% of total	Number of shares	% of total shareholding
SHAREHOLDERS' SPREAD AS AT 30 SEPTEMBER 2006				
Public shareholders	9 336	99.98	167 191 210	98.38
Non-public shareholders				
– The SPAR Group Limited Employee Share Trust (2004)	1	0.01	2 740 725	1.61
– Shares held by directors	1	0.01	4 000	0.01
	9 338	100.00	169 935 935	100.00

TYPE OF SHAREHOLDERS	
Pension funds	43.0
Mutual funds	32.0
Private investors	13.0
Insurance companies	8.0
Other	4.0
	100.0

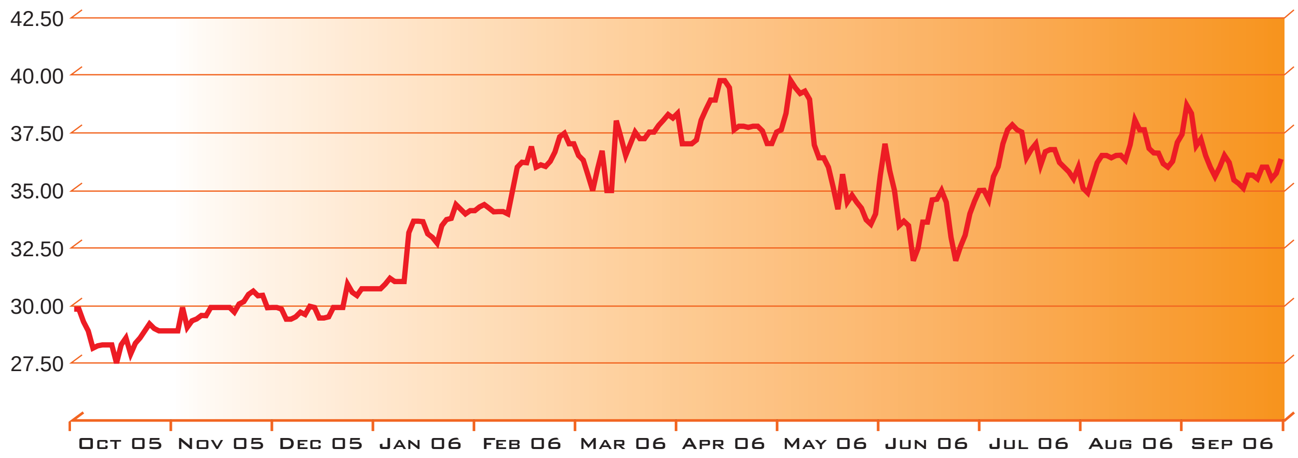
BENEFICIAL OWNERS HOLDING IN EXCESS OF 5% OF THE COMPANY'S EQUITY	
Public Investment Corporation	10.2
Investment Solutions	5.4

FUND MANAGERS HOLDING IN EXCESS OF 5% OF THE COMPANY'S EQUITY	
Allan Gray Investment Council	17.3
Investec Asset Management	10.9
Old Mutual Asset Managers	7.8
Stanlib Asset Management	7.4
Sanlam Investment Management	7.2

STOCK EXCHANGE STATISTICS		
Market price per share		
– at year-end	cents	3 635
– highest	cents	4 020
– lowest	cents	2 751
Number of share transactions		26 121
Number of shares traded	millions	107.8
Number of shares traded as a percentage of total issued shares	%	64.5
Value of shares traded	R million	3 717
Earnings yield at year-end	%	6.6
Dividend yield at year-end	%	3.4
Price earnings ratio at year-end		15.1
Market capitalisation at year-end net of treasury shares	R million	6 078
Market capitalisation to shareholders equity at year-end	multiple	6.8

SHARE PRICE PERFORMANCE

THE SPAR GROUP LIMITED
CLOSING PRICES 2005 – 2006



SHAREHOLDERS' DIARY

Financial year-end		30 September
Annual general meeting		February
Reports and profit statements:		
Interim report		May
Annual report		November
Annual financial statements issued		December
Dividends:		
Interim	Declaration	May
	Payable	June
Final	Declaration	November
	Payable	December

NOTICE TO SHAREHOLDERS

Notice is hereby given that the annual general meeting of shareholders of The SPAR Group Limited will be held in the company's boardroom, 22 Chancery Lane, Pinetown, Durban, South Africa on Wednesday, 7 February 2007 at 09:00 for the purpose of conducting the following:

ORDINARY BUSINESS

1. To receive, consider and approve the annual financial statements for the year ended 30 September 2006.
2. To consider the re-election, as a director of the company, of Mr RJ Hutchison who retires in accordance with the company's Articles of Association, but being eligible, offers himself for re-election. Mr RJ Hutchison's abbreviated CV can be found on page 16.
3. To consider the re-election, as a director of the company, of Mr MP Madi who retires in accordance with the company's Articles of Association, but being eligible, offers himself for re-election. Mr MP Madi's abbreviated CV can be found on page 16.
4. To ratify the appointment of Ms P Mnganga as an independent non-executive director in terms of the Companies Act, Act 61 of 1973, as amended ("the Companies Act") and the Articles of Association of the company. Ms P Mnganga was appointed an independent non-executive director on 1 January 2006. Ms P Mnganga's abbreviated CV can be found on page 17.
5. To ratify the appointment of Mr PK Hughes as a non-executive director in terms of the Companies Act and the Articles of Association of the Company, following his retirement as chief executive officer on 1 October 2006. Mr PK Hughes' abbreviated CV can be found on page 17.
6. To ratify the appointment effective 1 October 2006 of Mr WA Hook as an executive director in terms of the Companies Act and the Articles of Association of the Company.
7. To reappoint Messrs Deloitte & Touche as auditors of the company until the next annual general meeting.
8. To approve the directors' remuneration for the year ended 30 September 2006 as reflected in the annual financial statements.

SPECIAL BUSINESS

Shareholders will be requested to consider and, if deemed fit, to pass the following special resolution, and ordinary resolution, with or without amendment:

9. Special Resolution no. 1

   "Resolved that in terms of the authority granted in the Articles of Association of the company and/or any subsidiary of the company, the company and/or its subsidiaries and/or The SPAR Group Limited Employee Share Trust (2004) be and are hereby authorised, by way of a general approval, to acquire the company's ordinary shares ("shares"), upon such terms and conditions and in such amounts as the directors of the company (and, in the case of an acquisition by a subsidiary(ies), the directors of the subsidiary(ies)) may from time to time decide, but subject to the provisions of the Companies Act, the Listings Requirements of the JSE Limited ("JSE") and the following conditions:

   - that this authority shall be valid until the next annual general meeting of the company, or for 15 months from the date of passing of this resolution, whichever period is shorter;
   - that any repurchases of shares in terms of this authority be effected through the order book operated by the JSE trading system and done without any prior understanding or arrangement between the company and the counter-party;
   - that at any point in time, only one agent will be appointed to effect the repurchases on behalf of the company;
   - that the repurchase may only be effected if, after the repurchase, the company still complies with the minimum spread requirements stipulated in the JSE Listings Requirements;
   - that the acquisitions of shares in any one financial year shall be limited to 5% (five percent) of the issued share capital of the company as at the beginning of the financial year, provided that any subsidiary(ies) may acquire shares to a maximum of 5% (five percent) in the aggregate of the shares of the company;
   - that any acquisition of shares in terms of this authority may not be made at a price greater than 10% (ten per cent) above the weighted average market value of the shares over the 5 (five) business days immediately preceding the date on which the acquisition is effected;

- the repurchase of shares may not be effected during a prohibited period, as defined in the JSE Listings Requirements; and
- that an announcement containing full details of such acquisitions of shares will be published as soon as the company and/or its subsidiary(ies) has/have acquired shares constituting, on a cumulative basis, 3% (three per cent) of the number of shares in issue at the date of the general meeting at which this special resolution is considered and, if approved, passed, and for each 3% (three per cent), in aggregate, of the aforesaid initial number acquired thereafter."

Reasons and effect

The reason for, and the effect of, this special resolution will be to grant the directors of the company the general authority to contract the company and/or any of its subsidiaries or The SPAR Group Limited Employee Share Trust (2004) to acquire shares in the company, should the directors consider it appropriate in the circumstances.

In terms of the authority granted at a general meeting of the shareholders on 27 June 2006, The SPAR Group Limited Employee Share Trust (2004) purchased 2 740 725 shares in the company prior to 30 September 2006. It is intended to continue with the repurchase of shares by the aforementioned trust. The board of directors will continually reassess the share purchase programme having regard to prevailing circumstances.

After considering the effects of a maximum repurchase, the directors are of the opinion that:

- the company and the group will be able to pay its debts as they become due in the ordinary course of business for a period of 12 months after the date of the notice of the annual general meeting;
- the consolidated assets of the company and the group, fairly stated in accordance with International Financial Reporting Standards ("IFRS"), will be in excess of its consolidated liabilities of the company and the group for a period of 12 months after the date of the notice of the annual general meeting;
- the company's and the group's issued share capital and reserves will be adequate for a period of 12 months after the date of the notice of the annual general meeting to meet the company's and the group's current and foreseeable future requirements; and
- the company's and the group's working capital will be adequate for a period of 12 months after the date of the notice of the annual general meeting to meet the company's and the group's current and foreseeable future requirements.

The company will ensure that its sponsor provides to the JSE the necessary letter on the adequacy of the working capital in terms of the JSE Listings Requirements, prior to the commencement, after the annual general meeting, of any purchase of the company shares on the open market.

Other disclosures required in terms of Section 11.26 of the JSE Listings Requirements:

The JSE Listings Requirements requires disclosure of the following information which can be found elsewhere in the annual report of which this notice forms part:

Directors and management	pages 16, 17 and 23;
Major shareholders	page 86;
Directors' interests in securities	pages 79 – 80;
Share capital of the company	page 71.

Material change

There has been no material change in the trading or financial position of the company and its subsidiaries since the year-end reporting date and the date of this notice.

Litigation statement

There are no legal or arbitration proceedings, including proceedings that are pending or threatened, of which the company is aware, that may have or have had in the recent past, being at least the previous 12 months, a material effect on the financial position of the company and its subsidiaries.

Directors' responsibility statement

The directors, whose names are set out on pages 16 – 17 of this annual report, collectively and individually accept full responsibility for the accuracy of the information given in this resolution in relation to the company and certify that, to the best of their knowledge and belief, no material facts have been omitted which would make any statement false or misleading, that all reasonable enquiries to ascertain such facts have been made and that this resolution contains all information required by Law and the JSE Listings Requirements.

10. Ordinary Resolution no. 1

Pursuant to the granting of share options by The SPAR Group Limited Employee Share Trust (2004), authority is sought to place the issuing of the necessary shares, in the event of an option holder exercising his rights thereto, under the control of the directors.

"Resolved as an ordinary resolution that such number of the ordinary shares in the authorised but unissued capital of the company required for the purpose of satisfying the obligations of The SPAR Group Limited Employee Share Trust (2004) ("the Trust"), be and they are hereby placed under the control of the directors, who are hereby, as a specific authority, authorised to allot and issue those shares in terms of the Trust deed."

The reason for, and the effect of, ordinary resolution number 1 will be to give the directors a general authority to issue shares to share option holders as and when such option holders exercise their option rights.

VOTING AND PROXIES

Shareholders who have not dematerialised their shares or who have dematerialised their shares with "own name" registration are entitled to attend and vote at the meeting and are entitled to appoint a proxy or proxies to attend, speak and vote in their stead. The person so appointed need not be a shareholder. Proxy forms must be forwarded to reach the company's transfer secretaries, Link Market Services South Africa (Pty) Limited, PO Box 4844, Johannesburg, 2000, by no later than 17:00 on Monday, 5 February 2007. Proxy forms may only be completed by shareholders who have not dematerialised their shares or who have dematerialised shares with "own name" registration.

On a show of hands, every shareholder of the company present in person or represented by proxy shall have one vote only. On a poll, every shareholder of the company shall have one vote for every share held in the company by such shareholder.

Shareholders who have dematerialised their shares, other than those shareholders who have dematerialised their shares with "own name" registration, should contact their CSDP or broker in the manner and time stipulated in their agreement:

- to furnish them with their voting instructions; and
- in the event that they wish to attend the meeting, to obtain the necessary authority to do so.

By order of the Board

KJ O'Brien
Company Secretary

14 November 2006

The SPAR Group Limited
(Registration No 1967/001572/06)

Designed by motiv
PRINTED BY INCE (PTY) LTD

The SPAR Group Limited
Registration number: 1967/001572/06
Share code: SPP
ISIN Number: ZAE000058517
("SPAR" or "the group")

FORM OF PROXY

Only for use by shareholders who have not dematerialised their shares or shareholders who have dematerialised their shares with "own name" registration.

All other dematerialised shareholders must contact their CSDP or broker to make the relevant arrangements concerning voting and/or attendance at the meeting.

For use by SPAR ordinary shareholders at the annual general meeting to be held at 22 Chancery Lane, Pinetown on Wednesday, 7 February 2007 at 09:00.

I/We ______________________________

of (address) ______________________________

being the holder/s of ______________________________ shares, appoint (see note 1)

1. ______________________________ or failing him/her/it;

2. ______________________________ or failing him/her/it;

3. the chairman of the annual general meeting

as, my/our proxy to act for me/us on my/our behalf at the annual general meeting which will be held for the purposes of considering, and if deemed fit, passing, with or without modification, the resolutions to be proposed thereat and at any adjournment thereof, and to vote for and/or against the resolutions and/or abstain from voting in respect of the ordinary shares registered in my/our name/s, in accordance with the following instructions:

	Number of votes (one vote per share)		
ORDINARY BUSINESS	For	Against	Abstain
1. Adoption of annual financial statements			
2. Ratification/appointment of Mr RJ Hutchison			
3. Ratification/appointment of Mr MP Madi			
4. Ratification/appointment of Ms P Mnganga			
5. Ratification/appointment of Mr PK Hughes			
6. Ratification/appointment of Mr WA Hook			
7. Approval of appointment of auditors			
8. Approval of remuneration payable to directors			
SPECIAL BUSINESS			
1. Special Resolution no. 1 To approve the acquisition by the company and/or its subsidiaries of shares in the company			
2. Ordinary Resolution no. 1 To place ordinary shares under the control of the directors for share option purposes			

Signed at ______________ this ______________ day of ______________ 2007

Signature ______________________________

Completed forms of proxy must be received at the office of the company's transfer secretaries, Link Market Services South Africa (Pty) Limited, PO Box 4844, Johannesburg, 2000, by not later than 17:00 on Monday, 5 February 2007.

NOTES

1. A shareholder's instructions to the proxy must be indicated in the appropriate box provided. Failure to comply with the above will be deemed to authorise the proxy to vote or abstain from voting at the annual general meeting as he/she deems fit. A shareholder may instruct the proxy to vote less than the total number of shares held by inserting the relevant number of shares in the appropriate box provided. A shareholder who fails to do so will be deemed to have authorised the proxy to vote or abstain from voting, as the case may be, in respect of all the shareholders' votes exercisable at the annual general meeting.
2. Documentary evidence establishing the authority of a person signing this form of proxy in a representative capacity (e.g. for a company, close corporation, trust, pension fund, deceased estate, etc.) must be attached to this form of proxy unless previously recorded by the company's share registrar or waived by the chair of the annual general meeting.
3. Any alteration or correction made to this form of proxy must be initialled by the signatory/ies.
4. A minor must be assisted by the minor's parent or guardian unless the relevant documents establishing the minor's legal capacity are produced or have been registered by the company's transfer secretaries.
5. The chairman of the annual general meeting may accept any form of proxy which is completed other than in accordance with these notes if the chairman of the annual general meeting is satisfied as to the manner in which the shareholder wishes to vote.

CORPORATE INFORMATION

Company name
The SPAR Group Ltd

Registration number
1967/001572/06

JSE code
SPP

ISIN number
ZAE000058517

Group secretary
KJ O'Brien – Appointed group secretary 2006

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Umhlanga Rocks
4320

Auditors
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PO Box 243
Durban
4000

Transfer secretaries
Link Market Services South Africa (Pty) Ltd
PO Box 4844
Johannesburg
2000

Sponsor
Rand Merchant Bank
PO Box 786273
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2146

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